State of California:

Financial Report
Year Ended June 30, 1996

December 1996
96001

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December 30, 1996 96001

The Governor of California
President pro Tempore of the Senate
Speaker of the Assembly
State Capitol
Sacramento, California 95814

Dear Governor and Legislative Leaders:

The Bureau of State Audits presents its Independent Auditors' Report on the State of California's general purpose financial statements for the year ended June 30, 1996. These financial statements are presented on a basis in conformity with generally accepted accounting principles (GAAP). The financial statements show that the State's General Fund generated approximately $400 million more in revenues than it spent for fiscal year ended June 30, 1996. However, the General Fund ended the fiscal year with a fund deficit of nearly $800 million. The GAAP basis statements include all liabilities owed by the State while the budgetary basis statements that are used to report on the State's budget do not reflect all liabilities.

We conducted the audit to comply with the California Government Code, Section 8546.4.

Respectfully submitted,

KURT R. SJOBERG
State Auditor

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Independent Auditors' Report

THE GOVERNOR AND THE LEGISLATURE OF THE
STATE OF CALIFORNIA

We have audited the general purpose financial statements of the State of California as of and for the year ended June 30, 1996, as listed in the table of contents. These general purpose financial statements are the responsibility of the State's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit. We did not audit the financial statements of the pension trust funds, which reflect total assets constituting 82 percent of the fiduciary funds. We also did not audit the financial statements of certain enterprise funds, which reflect total assets and revenues, constituting 86 percent and 90 percent, respectively, of the enterprise funds. In addition, we did not audit the University of California funds. Finally, we did not audit the financial statements of certain component unit authorities, which reflect total assets and revenues, constituting 97 percent and 95 percent, respectively, of the component unit authorities. The financial statements of the pension trust funds, certain enterprise funds, the University of California funds, and certain component unit authorities referred to above were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for these funds and entities is based solely upon the reports of the other auditors.

We conducted our audit in accordance with government auditing standards issued by the Comptroller General of the United States and generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based upon our audit and the reports of other auditors, the general purpose financial statements as listed in the table of contents present fairly, in all material respects, the financial position of the State of California as of June 30, 1996, and the results of its operations and the cash flows of its proprietary funds and component unit authorities for the year then ended, in conformity with generally accepted accounting principles.

Our audit was conducted for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The combining financial statements and schedules listed in the accompanying table of contents are presented for purposes of additional analysis and are not a required part of the general purpose financial statements of the State of California. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, based upon our audit and the reports of other auditors, is fairly presented in all material respects in relation to the general purpose financial statements taken as a whole.

We did not audit the data included in the introductory and statistical sections of this report, and accordingly, we express no opinion on them. In accordance with government auditing standards, reports on the State's internal control structure and on its compliance with laws and regulations will be issued in our single audit report.

BUREAU OF STATE AUDITS

Philip J. Jelicich

PHILIP J. JELICICH, CPA
Deputy State Auditor

November 27, 1996

General Purpose Financial Statements

Combined Balance Sheet

All Fund Types, Account Groups, and Discretely Presented Component Units

June 30, 1996
(Amounts in thousands)

	Governmental Fund Types			Proprietary Fund Types	
	General	Special Revenue	Capital Projects	Enterprise	Internal Service
ASSETS:					
Cash and pooled investments (Note 3)	$ 141,230	$ 3,321,793	$ 56,245	$ 3,148,359	$ 181,425
Investments (Note 3)	—	—	2,955	3,682,138	—
Amount on deposit with U.S. Treasury	—	—	—	—	—
Receivables (net)	78,026	352,842	1,278	98,252	2,299
Due from other funds (Note 4)	4,824,173	2,815,372	72,542	241,647	276,089
Due from primary government	—	—	—	—	—
Due from other governments	161,494	4,507,110	13	66,419	17,022
Prepaid items	—	—	—	26,018	13,380
Food stamps (Note 1B)	—	504,262	—	—	—
Inventories, at cost	—	—	—	22,471	79,667
Net investment in direct financing leases (Note 6)	—	—	—	4,153,448	—
Advances and loans receivable	762,497	1,300,670	—	2,858,580	—
Deferred charges	—	—	—	1,069,593	—
Fixed assets (Note 7)	—	—	—	5,460,420	248,354
Other assets	1,041	227,164	148	59,327	9,147
Amount to be provided for retirement of long-term obligations	—	—	—	—	—
Total Assets	**$ 5,968,461**	**$ 13,029,213**	**$ 133,181**	**$ 20,886,672**	**$ 827,383**

The notes to the financial statements are an integral part of this statement.

Fiduciary Fund Type: Trust and Agency	General Fixed Assets	General Long-Term Obligations	Total Primary Government (Memorandum Only)	Component Units: University of California	Component Units: Special Purpose Authorities	Total Reporting Entity (Memorandum Only)
$ 16,956,574	$ —	$ —	$ 23,805,626	$ 51,603	$ 614,114	$ 24,471,343
165,533,261	—	—	169,218,354	32,299,038	6,893,781	208,411,173
2,914,135	—	—	2,914,135	—	—	2,914,135
11,257,385	—	—	11,790,082	1,426,708	216,999	13,433,789
6,982,839	—	—	15,212,662	138,250	739	15,351,651
—	—	—	—	111,249	13,511	124,760
656,530	—	—	5,408,588	107,531	—	5,516,119
22,862	—	—	62,260	—	—	62,260
—	—	—	504,262	—	—	504,262
—	—	—	102,138	98,123	—	200,261
—	—	—	4,153,448	—	—	4,153,448
1,405,426	—	—	6,327,173	—	3,736,134	10,063,307
—	—	—	1,069,593	57,535	3,934	1,131,062
—	15,027,958	—	20,736,732	13,447,986	531,456	34,716,174
124,960	—	—	421,787	3,675	813,305	1,238,767
—	—	20,471,193	20,471,193	—	—	20,471,193
$ 205,853,972	$ 15,027,958	$ 20,471,193	$ 282,198,033	$ 47,741,698	$ 12,823,973	$ 342,763,704

(Continued)

The notes to the financial statements are an integral part of this statement.

Combined Balance Sheet

All Fund Types, Account Groups, and Discretely Presented Component Units

June 30, 1996
(Amounts in thousands)

	Governmental Fund Types			Proprietary Fund Types	
	General	Special Revenue	Capital Projects	Enterprise	Internal Service
LIABILITIES:					
Accounts payable	$ 824,242	$ 956,297	$ 20,309	$ 217,093	$ 90,638
Due to other funds (Note 4)	4,205,258	4,161,421	35,553	335,898	117,910
Due to component units (Note 4)	182,122	85,955	—	2,579	18,884
Due to other governments	1,035,121	1,521,657	5,493	106,405	51
Dividends payable	—	—	—	—	—
Deferred revenue (Note 1B)	—	504,262	—	—	—
Advances from other funds	343,378	42,664	1,138	199,777	94,886
Tax overpayments	—	5,818	—	—	—
Benefits payable	—	—	—	83,059	—
Deposits	6	13,358	—	6,438	1,796
Contracts and notes payable	—	—	—	653	57,437
Lottery prizes and annuities	—	—	—	2,526,650	—
Compensated absences payable (Note 9)	94,633	—	—	32,448	36,694
Certificates of participation, commercial paper, and other borrowings (Note 10,11)	—	—	—	21,000	—
Net assets available for benefits	—	—	—	—	—
Capital lease obligations (Note 12)	—	—	—	313	32,334
Advance collections	22,761	86,721	196	347,857	144,222
General obligation bonds payable (Note 14)	—	—	—	3,982,285	—
Revenue bonds payable (Note 15)	—	—	—	8,418,904	—
Interest payable	—	—	19,882	175,071	—
Other liabilities	29,720	45,873	—	14,753	4,991
Total Liabilities	**6,737,241**	**7,424,026**	**82,571**	**16,471,183**	**599,843**
FUND EQUITY AND OTHER CREDITS:					
Contributed capital (Note 1K,17C)	—	—	—	216,247	112,239
Investment in general fixed assets (Notes 1K,7)	—	—	—	—	—
Retained earnings:					
Reserved for regulatory requirements (Note 1K)	—	—	—	142,492	—
Unreserved (Note 1K)	—	—	—	4,056,750	115,301
Total Retained Earnings	—	—	—	**4,199,242**	**115,301**
Fund balances:					
Reserved for:					
Encumbrances (Note 1K)	450,821	1,623,118	116,074	—	—
Advances and loans (Note 1K)	762,497	1,300,670	—	—	—
Employees' Pension Benefits (Note 1K)	—	—	—	—	—
Continuing appropriations (Note 1K)	123,036	3,233,571	28,442	—	—
Other specific purposes (Notes 1K,17A)	—	—	—	—	—
Total Reserved	**1,336,354**	**6,157,359**	**144,516**	—	—
Unreserved:					
Undesignated (Deficit) (Note 1K)	**(2,105,134)**	**(552,172)**	**(93,906)**	—	—
Total Fund Equity and Other Credits (Deficit) (Notes 1K,17B)	**(768,780)**	**5,605,187**	**50,610**	**4,415,489**	**227,540**
Total Liabilities, Fund Equity, and Other Credits	**$ 5,968,461**	**$13,029,213**	**$ 133,181**	**$20,886,672**	**$ 827,383**

The notes to the financial statements are an integral part of this statement.

Fiduciary Fund Type: Trust and Agency	General Fixed Assets	General Long-Term Obligations	Total Primary Government (Memorandum Only)	Component Units: University of California	Component Units: Special Purpose Authorities	Total Reporting Entity (Memorandum Only)
$ 6,716,800	$ —	$ —	$ 8,825,379	$ 1,390,451	$ 115,242	$ 10,331,072
6,356,618	—	—	15,212,658	138,250	743	15,351,651
2,519	—	—	292,059	—	—	292,059
14,182,635	—	—	16,851,362	—	—	16,851,362
—	—	—	—	—	60,000	60,000
—	—	—	504,262	—	—	504,262
644,760	—	—	1,326,603	—	—	1,326,603
1,249,041	—	—	1,254,859	—	—	1,254,859
774,002	—	—	857,061	—	4,619,802	5,476,863
3,262,546	—	—	3,284,144	493,096	833	3,778,073
—	—	—	58,090	—	48,853	106,943
—	—	—	2,526,650	—	—	2,526,650
—	—	1,156,073	1,319,848	277,121	24,439	1,621,408
—	—	260,395	281,395	856,742	—	1,138,137
—	—	—	—	27,509,751	—	27,509,751
—	—	2,993,592	3,026,239	1,180,593	—	4,206,832
83,371	—	—	685,128	—	230,098	915,226
—	—	14,224,172	18,206,457	—	—	18,206,457
—	—	239,395	8,658,299	1,866,750	4,337,755	14,862,804
—	—	—	194,953	—	114,804	309,757
1,160,267	—	1,597,566	2,853,170	—	822,284	3,675,454
34,432,559	—	20,471,193	86,218,616	33,712,754	10,374,853	130,306,223
—	—	—	328,486	—	—	328,486
—	15,027,958	—	15,027,958	9,712,306	—	24,740,264
—	—	—	142,492	—	516,893	659,385
—	—	—	4,172,051	—	1,932,227	6,104,278
—	—	—	4,314,543	—	2,449,120	6,763,663
3	—	—	2,190,016	—	—	2,190,016
505,864	—	—	2,569,031	—	—	2,569,031
165,272,217	—	—	165,272,217	—	—	165,272,217
—	—	—	3,385,049	—	—	3,385,049
5,643,329	—	—	5,643,329	2,163,865	—	7,807,194
171,421,413	—	—	179,059,642	2,163,865	—	181,223,507
—	—	—	(2,751,212)	2,152,773	—	(598,439)
—	15,027,958	—	24,558,004	14,028,944	2,449,120	41,036,068
$ 205,853,972	$ 15,027,958	$ 20,471,193	$ 282,198,033	$ 47,741,698	$ 12,823,973	$ 342,763,704

(Concluded)

The notes to the financial statements are an integral part of this statement.

Combined Statement of Revenues, Expenditures, and Changes in Fund Balances

All Governmental Fund Types and Expendable Trust Funds

Year Ended June 30, 1996
(Amounts in thousands)

	Governmental Fund Types			Fiduciary Fund Types	Total Primary Government (Memorandum Only)
	General	Special Revenue	Capital Projects	Expendable Trust	
REVENUES:					
Taxes	$ 44,658,962	$ 4,147,202	$ —	$ 5,448,653	**$ 54,254,817**
Intergovernmental	—	24,337,762	—	—	**24,337,762**
Licenses and permits	110,128	2,828,411	—	—	**2,938,539**
Natural resources	72,985	53	—	—	**73,038**
Insurance premiums	—	—	—	756,138	**756,138**
Charges for services	136,735	251,965	—	9,138	**397,838**
Fees	265,358	1,234,463	—	43,449	**1,543,270**
Penalties	155,012	247,433	—	24,129	**426,574**
Interest	341,521	150,351	4,015	298,997	**794,884**
Other	96,442	875,219	2,766	1,104,266	**2,078,693**
Total Revenues	**45,837,143**	**34,072,859**	**6,781**	**7,684,770**	**87,601,553**
EXPENDITURES:					
Current:					
General government	1,597,179	1,589,767	13	888,608	**4,075,567**
Education	20,895,700	3,079,246	3,547	855,633	**24,834,126**
Health and welfare	14,084,938	21,916,424	—	4,950,440	**40,951,802**
Resources	501,778	1,314,585	7,006	45,571	**1,868,940**
State and consumer services	345,791	330,121	—	22,660	**698,572**
Business and transportation	40,209	5,559,326	26	12,834	**5,612,395**
Correctional programs	3,616,969	75,727	—	—	**3,692,696**
Property tax relief	467,127	3,000	—	—	**470,127**
Capital outlay	839,717	44,933	275,711	—	**1,160,361**
Debt service:					
Principal retirement	1,015,416	5,064	20,090	—	**1,040,570**
Interest and fiscal charges	1,126,469	29,253	21,981	—	**1,177,703**
Total Expenditures	**44,531,293**	**33,947,446**	**328,374**	**6,775,746**	**85,582,859**
Excess (Deficiency) of Revenues Over (Under) Expenditures	**1,305,850**	**125,413**	**(321,593)**	**909,024**	**2,018,694**
OTHER FINANCING SOURCES (USES):					
Proceeds from general obligation bonds, commercial paper, and capital leases	839,717	355,514	154,984	—	**1,350,215**
Proceeds from refunding bonds	—	113,585	206,891	—	**320,476**
Operating transfers in	479,466	1,913,104	50,501	334,312	**2,777,383**
Operating transfers out	(217,440)	(2,239,842)	(11,041)	(310,824)	**(2,779,147)**
Transfers out - component unit	(2,040,406)	(19,136)	(51,971)	—	**(2,111,513)**
Payment to refunding bond escrow agent	—	(113,585)	(206,891)	—	**(320,476)**
Total Other Financing Sources (Uses)	**(938,663)**	**9,640**	**142,473**	**23,488**	**(763,062)**
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	**367,187**	**135,053**	**(179,120)**	**932,512**	**1,255,632**
Fund Balances (Deficit), July 1, 1995	**(1,135,967)**	**5,470,134**	**229,730**	**5,216,684**	**9,780,581**
Fund Balances (Deficit), June 30, 1996	**$ (768,780)**	**$ 5,605,187**	**$ 50,610**	**$ 6,149,196**	**$ 11,036,213**

The notes to the financial statements are an integral part of this statement.

Combined Statement of Revenues, Expenditures, and Changes in Fund Balances Budgetary Basis - Budget and Actual

All Governmental Fund Types

Year Ended June 30, 1996
(Amounts in thousands)

	General			Special Revenue		
	Budget (Note 2A)	Actual	Variance Favorable (Unfavorable)	Budget (Note 2A)	Actual	Variance Favorable (Unfavorable)
REVENUES:						
Taxes	—	$ 44,756,337	—	—	$ 153,341	—
Intergovernmental	—	—	—	—	21,659,268	—
Licenses and permits	—	106,576	—	—	2,828,411	—
Natural resources	—	71,483	—	—	53	—
Charges for services	—	50,963	—	—	251,965	—
Fees	—	260,610	—	—	1,234,047	—
Penalties	—	170,139	—	—	248,039	—
Interest	—	326,823	—	—	150,319	—
Other	—	339,159	—	—	1,107,579	—
Total Revenues	—	**46,082,090**	—	—	**27,633,022**	—
EXPENDITURES:						
Current:						
General government	$ 1,615,739	1,562,051	$ 53,688	$ 1,640,692	1,581,226	$ 59,466
Education	21,987,707	21,921,078	66,629	3,005,475	2,961,970	43,505
Health and welfare	14,629,658	14,249,518	380,140	20,826,512	19,303,167	1,523,345
Resources	499,748	495,707	4,041	1,589,741	1,411,965	177,776
State and consumer services	362,600	345,504	17,096	371,427	330,029	41,398
Business and transportation	44,550	41,448	3,102	6,345,390	5,641,500	703,890
Correctional programs	3,618,944	3,606,296	12,648	78,567	75,727	2,840
Property tax relief	482,208	474,179	8,029	15,800	3,000	12,800
Capital outlay	—	—	—	51,969	44,933	7,036
Debt service:						
Principal retirement	1,255,605	1,255,605	—	168,153	168,153	—
Interest and fiscal charges	923,084	897,765	25,319	100,562	100,374	188
Total Expenditures	**$ 45,419,843**	**44,849,151**	**$ 570,692**	**$ 34,194,288**	**31,622,044**	**$ 2,572,244**
OTHER FINANCING SOURCES (USES):						
Operating transfers in	—	4,602,244	—	—	13,477,917	—
Operating transfers out	—	(4,481,123)	—	—	(9,665,167)	—
Bonds authorized	—	—	—	—	2,025,000	—
Net Other Financing Sources (Uses)	—	**121,121**	—	—	**5,837,750**	—
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	—	**1,354,060**	—	—	**1,848,728**	—
Fund Balances (Deficit), July 1, 1995	—	**(280,209) ***	—	—	**6,229,564**	—
Fund Balances (Deficit), June 30, 1996	—	**$ 1,073,851**	—	—	**$ 8,078,292**	—

* Restated (see Note 2)

(Continued)

The notes to the financial statements are an integral part of this statement.

Combined Statement of Revenues, Expenditures, and Changes in Fund Balances Budgetary Basis - Budget and Actual

All Governmental Fund Types

Year Ended June 30, 1996
(Amounts in thousands)

	Capital Projects		
	Budget (Note 2A)	Actual	Variance Favorable (Unfavorable)
REVENUES:			
Interest	—	$ 1,371	—
Other	—	49,226	—
Total Revenues	**—**	**50,597**	**—**
EXPENDITURES:			
Current:			
Education	$ 8,404	4,692	$ 3,712
Resources	14,628	7,005	7,623
State and consumer services	46,526	16,249	30,277
Capital outlay	331,877	312,454	19,423
Debt service:			
Principal retirement	17,795	17,795	—
Interest and fiscal charges	4,604	4,604	—
Total Expenditures	**$ 423,834**	**362,799**	**$ 61,035**
OTHER FINANCING SOURCES (USES):			
Operating transfers in	—	154,973	—
Operating transfers out	—	(137,081)	—
Bonds authorized	—	2,975,000	—
Net Other Financing Sources (Uses)	**—**	**2,992,892**	**—**
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	**—**	**2,680,690**	**—**
Fund Balances (Deficit), July 1, 1995	**—**	**911,076**	**—**
Fund Balances (Deficit), June 30, 1996	**—**	**$ 3,591,766**	**—**

(Concluded)

The notes to the financial statements are an integral part of this statement.

Combined Statement of Revenues, Expenses, and Changes in Retained Earnings

All Proprietary Fund Types and Discretely Presented Component Units – Special Purpose Authorities

Year Ended June 30, 1996
(Amounts in thousands)

	Proprietary Fund Types		Total Primary Government (Memorandum Only)	Component Units	Total Reporting Entity (Memorandum Only)
	Enterprise	Internal Service		Special Purpose Authorities	
OPERATING REVENUES:					
Lottery ticket sales	$ 2,292,325	$ —	$ 2,292,325	$ —	$ 2,292,325
Service and sales	971,506	1,135,979	2,107,485	105,951	2,213,436
Earned premiums (net)	21,159	—	21,159	1,077,384	1,098,543
Investment and interest	302,221	—	302,221	342,740	644,961
Contributions	—	—	—	2,071	2,071
Rent	319,816	—	319,816	17,683	337,499
Other	2,109	—	2,109	7,801	9,910
Total Operating Revenues	3,909,136	1,135,979	5,045,115	1,553,630	6,598,745
OPERATING EXPENSES:					
Lottery prizes	1,128,453	—	1,128,453	—	1,128,453
Personal services	278,129	306,771	584,900	112,219	697,119
Supplies	76,156	18,224	94,380	2,719	97,099
Services and charges	691,298	782,830	1,474,128	221,348	1,695,476
Depreciation	75,186	50,675	125,861	11,552	137,413
Benefit payments	29,372	—	29,372	953,491	982,863
Interest expense	511,174	4,708	515,882	274,501	790,383
Amortization (recovery) of deferred charges	(17,978)	—	(17,978)	2,238	(15,740)
Total Operating Expenses	2,771,790	1,163,208	3,934,998	1,578,068	5,513,066
Operating Income (Loss)	1,137,346	(27,229)	1,110,117	(24,438)	1,085,679
NONOPERATING REVENUES (EXPENSES):					
Grants received	481	—	481	72,470	72,951
Grants provided	(13,276)	—	(13,276)	(72,470)	(85,746)
Interest revenue	143,012	1,589	144,601	490,165	634,766
Interest expense and fiscal charges	(188,130)	(2,583)	(190,713)	(2,722)	(193,435)
Dividends paid	—	—	—	(281,513)	(281,513)
Lottery payments for education	(815,189)	—	(815,189)	—	(815,189)
Other	(13,946)	(1,229)	(15,175)	(3,514)	(18,689)
Payment to refunded bond escrow agent	(2,211)	—	(2,211)	—	(2,211)
Total Nonoperating Revenues (Expenses)	(889,259)	(2,223)	(891,482)	202,416	(689,066)
Income (Loss) Before Operating Transfers	248,087	(29,452)	218,635	177,978	396,613
OPERATING TRANSFERS:					
Operating transfers in	80,829	13,011	93,840	—	93,840
Operating transfers out	(88,656)	(3,420)	(92,076)	—	(92,076)
Total Operating Transfers	(7,827)	9,591	1,764	—	1,764
Net Income (Loss)	240,260	(19,861)	220,399	177,978	398,377
Retained Earnings, July 1, 1995	3,958,982 *	135,162	4,094,144	2,271,142	6,365,286
Retained Earnings, June 30, 1996	$ 4,199,242	$ 115,301	$ 4,314,543	$ 2,449,120	$ 6,763,663

* Restated (see Note 1L)

The notes to the financial statements are an integral part of this statement.

Combined Statement of Cash Flows

All Proprietary Fund Types and Discretely Presented Component Units – Special Purpose Authorities

Year Ended June 30, 1996
(Amounts in thousands)

	Proprietary Fund Types		Component Units
	Enterprise	Internal Service (1)	Special Purpose Authorities
CASH FLOWS FROM OPERATING ACTIVITIES:			
Operating income (loss)	$ 1,137,346	$ (27,229)	$ (24,438)
ADJUSTMENTS TO RECONCILE OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATIONS:			
Interest expense on operating debt	(713)	767	274,501
Interest on investments	—	—	(73,607)
Depreciation	75,186	50,675	11,552
Accretion of capital appreciation bonds	10,000	—	9,807
Provisions and allowances	2,514	—	3,067
Accrual of deferred charges	(6,392)	—	(3,934)
Amortization of deferred credits	(3,575)	—	(4,948)
Amortization of discounts	(4,658)	—	6,760
Amortization (recovery) of deferred charges	(32,187)	—	—
Other	9,579	8,191	20,176
Change in assets and liabilities:			
Receivables	(184)	(89)	12,440
Due from other funds	(27,136)	(12,356)	(113)
Due from primary government	—	—	(6,730)
Due from other governments	(19,658)	(14,137)	7
Prepaid items	(4,096)	1,574	(4)
Inventories	(2,563)	(12,630)	—
Net investment in direct financing leases	(432,904)	—	—
Advances and loans receivable	251	—	—
Other assets	(21,400)	283	(456,032)
Accounts payable	42,498	12,502	4,720
Interest payable	(4,364)	—	—
Due to other funds	(82,154)	31,187	408
Due to component units	1,177	(5,832)	—
Due to other governments	9,102	9	—
Benefits payable	(3,533)	—	(271,489)
Deposits	83	329	833
Lottery prizes and annuities	87,627	—	—
Contract and notes payable	(745)	—	—
Compensated absences payable	(171)	1,441	4,486
Capital lease obligation	313	—	—
Advance collections	(12,547)	16,762	(27,583)
Other liabilities	12,735	2,140	443,675
Total Adjustments	**(407,915)**	**80,816**	**(52,008)**
Net Cash Provided by (Used In) Operating Activities	**729,431**	**53,587**	**(76,446)**

(Continued)

(1) **Noncash Transactions** are those portions of investing and financing activities that affected assets and liabilities but did not result in cash receipts or payments during the period. Internal service funds made non–cash transactions for installment purchases totaling $17 million to acquire equipment.

The notes to the financial statements are an integral part of this statement.

	Proprietary Fund Types		Component Units
	Enterprise	Internal Service (1)	Special Purpose Authorities
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Dividends paid	—	—	(327,013)
Advances from other funds	347	10,000	—
Return of advances from other funds	—	(2,100)	—
Proceeds from revenue bonds	—	—	1,002,452
Retirement of general obligation bonds	(214,365)	—	—
Retirement of revenue bonds	(65,463)	—	(427,560)
Interest paid on operating debt	(1,917)	—	(257,071)
Operating transfers in	67,992	13,011	—
Operating transfers out	(82,326)	—	—
Grants provided	(13,276)	—	—
Other expenses	—	(344)	(160)
Lottery payments for education	(847,922)	—	—
Net Cash Provided by (Used In) Non-capital Financing Activities	**(1,156,930)**	**20,567**	**(9,352)**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Unamortized water project costs	1,384	—	—
Acquisition of intangible assets	—	(1,787)	—
Acquisition of fixed assets	(377,730)	(48,442)	(28,680)
Proceeds from sale of fixed assets	262	3,208	2,810
Advances from other funds	288,669	946	—
Return of advances from other funds	(314,931)	—	—
Proceeds from notes payable and commercial paper	244,454	—	3,928
Principal paid on notes payable and commercial paper	(277,509)	(18,164)	—
Payment of capital lease obligations	—	(1,915)	—
Retirement of general obligation bonds	(36,840)	—	—
Proceeds from revenue bonds	1,303,216	—	—
Retirement of revenue bonds	(431,195)	—	—
Interest paid	(195,508)	(3,350)	(2,722)
Contributed capital	1,455	1,936	—
Grants received	481	—	—
Operating transfers in	1,066	—	—
Operating transfers out	(1,064)	—	—
Payment of deferred costs	6,070	—	—
Payment to refunding bond escrow agent	(162,202)	—	—
Other costs	(1,512)	(299)	—
Net Cash Provided by (Used In) Capital and Related Financing Activities	**48,566**	**(67,867)**	**(24,664)**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of investments	(324,738)	—	(109,110)
Advances and loans provided	(12,169)	(45,000)	(709,861)
Collection of advances and loans	171,109	—	224,504
Proceeds from maturity and sale of investments	409,892	—	136,396
Interest and gains on investments	135,000	2,382	563,772
Net Cash Provided by (Used In) Investing Activities	**379,094**	**(42,618)**	**105,701**
Net Increase (Decrease) in Cash and Pooled Investments	**161**	**(36,331)**	**(4,761)**
Cash and Pooled Investments at July 1, 1995	**3,148,198**	**217,756**	**618,875**
Cash and Pooled Investments at June 30, 1996	**$ 3,148,359**	**$ 181,425**	**$ 614,114**

(Concluded)

The notes to the financial statements are an integral part of this statement.

Combined Statement of Changes in Plan Net Assets

Pension Trust Funds

Year Ended June 30, 1996
(Amounts in thousands)

ADDITIONS:	
Contributions:	
Employer	$ 3,808,818
Plan member	2,440,895
Total Contributions	**6,249,713**
Investment income:	
Net appreciation (depreciation) in fair value of investments	13,815,933
Interest, dividends, and other investment income	7,164,292
Less: Investment expense	(366,099)
Net Investment Income	**20,614,126**
Other	1,850
Total Additions	**26,865,689**
DEDUCTIONS:	
Benefits	6,503,718
Refunds of contributions	207,606
Administrative expense	287,216
Total Deductions	**6,998,540**
Net Increase (Decrease) in Fund Balance Reserved for Employees' Pension Benefits	**19,867,149**
Fund Balance Reserved for Employees' Pension Benefits, July 1, 1995	**145,405,068**
Fund Balance Reserved for Employees' Pension Benefits, June 30, 1996	**$ 165,272,217**

The notes to the financial statements are an integral part of this statement.

Combined Balance Sheet
Component Unit – University of California

June 30, 1996
(Amounts in thousands)

	Current Funds	Loan Funds	Endowment and Similar Funds	Plant Funds	Retirement System Funds	Total (Memorandum Only)
ASSETS:						
Cash	$ 48,310	$ —	$ —	$ 3,293	$ —	$ 51,603
Investments	2,458,180	41,652	1,634,270	901,248	27,263,688	32,299,038
Receivables (net)	966,014	262,011	5,500	542	192,641	1,426,708
Due from other funds	1,107	—	12,896	745	123,502	138,250
Due from primary government	111,249	—	—	—	—	111,249
Due from other governments	96,510	—	—	11,021	—	107,531
Inventories, at cost	98,123	—	—	—	—	98,123
Deferred charges	57,535	—	—	—	—	57,535
Fixed assets	—	—	—	13,447,986	—	13,447,986
Other assets	—	—	—	3,675	—	3,675
Total Assets	**$ 3,837,028**	**$ 303,663**	**$ 1,652,666**	**$ 14,368,510**	**$ 27,579,831**	**$ 47,741,698**
LIABILITIES AND FUND EQUITY:						
Liabilities:						
Accounts payable	$ 1,275,229	$ —	$ 6,932	$ 38,210	$ 70,080	$ 1,390,451
Due to other funds	123,502	2,000	—	12,748	—	138,250
Deposits	182,824	—	310,272	—	—	493,096
Compensated absences	277,121	—	—	—	—	277,121
Mortgages and other borrowings	—	—	—	856,742	—	856,742
Net assets available for benefits	—	—	—	—	27,509,751	27,509,751
Capital lease obligations	—	—	—	1,180,593	—	1,180,593
Revenue bonds payable	—	13,995	—	1,852,755	—	1,866,750
Total Liabilities	**1,858,676**	**15,995**	**317,204**	**3,941,048**	**27,579,831**	**33,712,754**
Fund Equity:						
Investment in general fixed assets	—	—	—	9,712,306	—	9,712,306
Fund balances:						
Reserved for other specific purposes	595,593	262,823	991,443	314,006	—	2,163,865
Undesignated	1,382,759	24,845	344,019	401,150	—	2,152,773
Total Fund Equity	**1,978,352**	**287,668**	**1,335,462**	**10,427,462**	**—**	**14,028,944**
Total Liabilities and Fund Equity	**$ 3,837,028**	**$ 303,663**	**$ 1,652,666**	**$ 14,368,510**	**$ 27,579,831**	**$ 47,741,698**

The notes to the financial statements are an integral part of this statement.

Combined Statement of Changes in Fund Balances Component Unit – University of California

Year Ended June 30, 1996
(Amounts in thousands)

	Current Funds	Loan Funds	Endowment and Similar Funds	Plant Funds
REVENUES AND OTHER ADDITIONS:				
Student tuition and fees	$ 955,202	$ —	$ —	$ 10,803
U.S. Government	3,630,328	3,871	—	12,957
Local Government	109,461	—	—	—
Private gifts, grants, and contracts	527,814	637	11,632	99,490
Investment income:				
Endowment activities	91,943	—	667	—
Other	144,194	8,258	—	47,636
Realized gains on investments	830	—	52,467	6,009
Sales and services:				
Educational activities	647,323	—	—	—
Teaching hospitals	1,932,239	—	—	—
Auxiliary enterprises	541,001	—	—	—
Expended for plant facilities (including $374,918 of current funds)	—	—	—	563,893
Retirement of indebtedness	—	—	—	139,556
Other revenues	214,895	—	—	—
Transfers in - primary government	2,060,109	—	—	51,404
Other additions	62,156	2,115	2,537	8,587
Total Revenues and Other Additions	**10,917,495**	**14,881**	**67,303**	**940,335**
EXPENDITURES AND OTHER DEDUCTIONS:				
Current fund expenditures:				
Educational and general	5,750,311	—	—	—
Teaching hospitals	1,865,924	—	—	—
Auxiliary enterprises	461,029	—	—	—
Department of Energy Laboratories	2,253,663	—	—	—
Plant fund expenditures: (including noncapitalized expenditures of $32,546)	—	—	—	221,521
Debt service:				
Principal retirement	—	—	—	139,556
Interest	—	—	—	168,653
Disposal of plant assets	—	—	—	217,221
Other	60,920	5,959	8,836	354
Total Expenditures and Other Deductions	**10,391,847**	**5,959**	**8,836**	**747,305**
TRANSFERS AMONG FUNDS:				
Mandatory contractual arrangements:				
Net revenues of auxiliary enterprises	(43,407)	—	—	43,407
Loan funds matching grants	(1,291)	1,291	—	—
Principal and interest	(223,852)	—	—	223,852
Nonmandatory (discretionary allocations)	(237,074)	(4,023)	48,041	193,056
Total Transfers Among Funds	**(505,624)**	**(2,732)**	**48,041**	**460,315**
Net Increase (Decrease) in Fund Balances	**20,024**	**6,190**	**106,508**	**653,345**
Fund Balances, July 1, 1995	1,958,328	281,478	1,228,954	9,774,117
Fund Balances, June 30, 1996	**$ 1,978,352**	**$ 287,668**	**$ 1,335,462**	**$ 10,427,462**

The notes to the financial statements are an integral part of this statement.

Combined Statement of Current Funds Revenues, Expenditures, and Other Changes Component Unit – University of California

Year Ended June 30, 1996
(Amounts in thousands)

	Current Funds Unrestricted	Current Funds Restricted	Total (Memorandum Only)
REVENUES:			
Student tuition and fees	$ 955,202	$ —	$ 955,202
U.S. Government appropriations, grants and contracts	260,306	1,098,553	1,358,859
Local government grants and contracts	1,483	98,437	99,920
Private gifts, grants and contracts	39,975	413,876	453,851
Investment income:			
Endowment and similar funds	23,455	58,409	81,864
Other	113,952	—	113,952
Realized gains (losses) on investments	280	—	280
Sales and services:			
Education activities	647,323	—	647,323
Teaching hospitals	1,932,239	—	1,932,239
Auxiliary enterprises	541,001	—	541,001
Department of Energy Laboratories	29,167	2,253,663	2,282,830
Other revenues	214,895	—	214,895
Transfers in - primary government	1,768,288	195,191	1,963,479
Total Revenues	6,527,566	4,118,129	10,645,695
EXPENDITURES AND MANDATORY TRANSFERS:			
Educational and general:			
Instructional	1,709,475	110,934	1,820,409
Research	248,228	1,269,510	1,517,738
Public service	93,121	97,747	190,868
Academic support	723,166	97,549	820,715
Student services	238,814	9,067	247,881
Institutional support	451,509	22,093	473,602
Operation and maintenance of plant	275,984	674	276,658
Student financial aid	153,202	249,238	402,440
Total Educational and General	3,893,499	1,856,812	5,750,311
Mandatory transfers:			
Loan fund matching grant	538	753	1,291
Debt service	90,032	82,314	172,346
Total Mandatory Transfers	90,570	83,067	173,637
Teaching Hospitals:			
Expenditures	1,862,927	2,997	1,865,924
Mandatory transfers	20,603	—	20,603
Total Teaching Hospitals	1,883,530	2,997	1,886,527
Auxiliary enterprises:			
Expenditures	456,372	4,657	461,029
Mandatory transfers	74,310	—	74,310
Total Auxiliary Enterprises	530,682	4,657	535,339
Department of Energy Laboratories	—	2,253,663	2,253,663
Total Expenditures and Mandatory Transfers	6,398,281	4,201,196	10,599,477
OTHER TRANSFERS AND ADDITIONS (DEDUCTIONS):			
Restricted receipts in excess of restricted expenditures	—	209,644	209,644
Nonmandatory transfers	(159,455)	(77,619)	(237,074)
Other	1,637	(401)	1,236
Total Other Transfers and Additions (Deductions)	(157,818)	131,624	(26,194)
Net Increase (Decrease) in Fund Balances	$ (28,533)	$ 48,557	$ 20,024

The notes to the financial statements are an integral part of this statement.

Notes to the Financial Statements – Index

Notes to the Financial Statements

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The general purpose financial statements present information on the financial activities of the State of California over which the Governor, the Legislature, and other elected officials have direct or indirect governing and fiscal control. As required by generally accepted accounting principles, these financial statements present the government and its component units.

Component units are organizations which are legally separate from the State but for which the State is financially accountable, or for which the nature and significance of their relationship with the State are such that exclusion would cause the State's financial statements to be misleading or incomplete. The decision to include a potential component unit in the State's reporting entity is based on several criteria including legal standing, fiscal dependency, and financial accountability. The following is a brief review of the two types of component units, blended and discretely presented, using these criteria.

1. Blended Component Units

Blended component units, although legally separate entities, are, in substance, part of the government's operations. Data from these units are combined with data of the primary government.

Building Authorities have been created through the use of Joint Exercise of Powers Agreements with various cities to finance the construction of state buildings. The building authorities are legally separate from the State of California. They meet the criteria of blended component units and are being reported as capital projects funds. As a result, the capital lease arrangements between the building authorities and the State of $320 million have been eliminated from the combined balance sheet. Instead, only the underlying fixed assets and the debt used to acquire them are reported in the appropriate account groups (see Note 25).

2. Discretely Presented Component Units

Component units that are discretely presented in the general purpose financial statements are reported in separate columns in the combined financial statements to emphasize that they are legally separate from the state government. Discretely presented component units primarily provide services to entities and individuals outside the State. For ease of presentation, discretely presented component units other than the University of California are included in the statements under the heading of Special Purpose Authorities.

The **University of California** was founded in 1868 as a public, state-supported, land grant institution. It was written into the State Constitution of 1879 as a public trust to be administered by a governing board, the Regents of the University of California. Though the University of California is legally separate from the State, it is a component unit of the State because the State appoints a voting majority of the Regents of the University of California, and expenditures for the support of various University of California programs and capital outlay are appropriated by the annual Budget Act. The University of California is discretely presented in the financial statements. Information about the University of California concerning the definition of the financial reporting entity and the summary of significant accounting policies are provided in Note 26A.

Special Purpose Authorities are legally separate from the State. These authorities are presented in three separate categories: State Compensation Insurance Fund (SCIF), California Housing Finance Agency (CHFA), and Non-Major Component Units. SCIF and CHFA component units are considered major component units for financial reporting purposes, and are thus shown separately in the notes while all other component units are shown in the Non-Major Component Units category. The inclusion of these authorities in the State's general purpose financial statements reflects the State's financial accountability for them. Information about special purpose authorities concerning the definition of the financial reporting entity and the summary of significant accounting policies are provided in Note 26B.

B. Basis of Presentation

The accompanying financial statements present the financial position and the results of operations of the State for the year ended June 30, 1996. The financial statements have been prepared in conformity with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB).

The State recognizes the distribution of food stamp benefits as revenue and expenditures in the special revenue fund type, as required by GASB. Revenue and expenditures are recognized when the benefits are distributed to the recipients. Food stamp balances held by the counties are reported as an asset and offset by deferred revenue. Revenues, expenditures, and balances of food stamp benefits are measured based on face value.

C. Fund Accounting

The accounts of the State of California are organized and operated on the basis of funds and account groups. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements. Account groups are a reporting

device to account for certain assets and liabilities of the governmental funds that are not recorded directly in those funds.

The financial activities of the State accounted for in the accompanying financial statements have been classified as follows:

Governmental Fund Types are used primarily to account for services provided to the general public without charging directly for those services. The State has three governmental fund types:

The *General Fund* is the main operating fund of the State. It accounts for transactions related to resources obtained and used for those services that do not need to be accounted for in another fund.

Special Revenue Funds account for transactions related to resources obtained from specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditures for specified purposes.

Capital Projects Funds account for transactions related to resources obtained and used to acquire or construct major capital facilities.

Proprietary Fund Types present financial data on state activities that are similar to those found in the private sector. Users are charged for the goods or services provided. Pursuant to GASB Statement No. 20, the State of California applies all applicable GASB pronouncements as well as all applicable Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, unless the pronouncements conflict with or contradict GASB pronouncements for its proprietary funds. However, the State of California has elected not to apply FASB Statements and Interpretations issued after November 30, 1989, with one exception. The exception is the Prison Industries Revolving Fund (an internal service fund), which has elected to follow FASB pronouncements issued after November 30, 1989, unless they conflict with or contradict GASB pronouncements. The proprietary fund types are as follows:

Enterprise Funds account for goods or services provided to the general public on a continuing basis either: (1) when the State intends that all or most of the cost involved is to be financed by user charges, or (2) when periodic measurement of the results of operations is appropriate for management control, accountability, capital maintenance, public policy, or other purposes.

Internal Service Funds account for goods or services provided to other agencies, departments, or governments on a cost-reimbursement basis.

Fiduciary Fund Types are used to account for assets held by the State. The State acts as a trustee or as an agent for individuals, private organizations, other governments, or other funds. The fiduciary fund types are as follows:

Expendable Trust Funds account for assets held in a trustee capacity when both principal and income (earnings on principal) may be expended in the course of a fund's designated operations.

Pension Trust Funds account for transactions, assets, liabilities, and net assets available for plan benefits of the retirement systems. The provisions of GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans* have been implemented. However, the provisions of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers* which are effective for periods beginning after June 15, 1997, have not been implemented.

Agency Funds account for assets held by the State, which acts as an agent for individuals, private organizations, other governments, or other funds. They are custodial in nature and do not measure the results of operations.

Account Groups are used to establish control over and accountability for the government's general fixed assets and general long-term obligations. The account groups are as follows:

The General Fixed Assets Account Group accounts for governmental fixed assets not reported in a proprietary fund or a trust fund.

The General Long-Term Obligations Account Group accounts for unmatured general obligation bonds and other long-term obligations generally expected to be financed from governmental funds.

D. Measurement Focus and Basis of Accounting

Governmental Fund Types and **Expendable Trust Funds** are presented using the flow of current financial resources measurement focus. With this measurement focus, operating statements present increases and decreases in net current assets; the unreserved fund balance is a measure of available spendable resources.

The accounts of the governmental fund types and expendable trust funds are reported using the modified accrual basis of accounting. Under the modified accrual basis, revenues are recorded as they become measurable and available, and expenditures are recorded at the time the liabilities are incurred. Principal tax revenues susceptible to accrual are recorded by the State as taxpayers earn income (personal income and bank and corporation taxes), as sales are made (consumption and use taxes), and as the taxable event occurs (miscellaneous taxes), net of estimated tax overpayments. Other revenue sources are recorded when they are earned or when they are due, provided they are measurable and available within the ensuing 12 months.

Compensated absences are accounted for on a modified accrual basis of accounting. The liability for earned leave of academic-year

faculty of the California State University and the special schools of the California State Department of Education is accrued at June 30, as explained in Note 1J. No additional expenditures are accrued since it is not anticipated that compensated absences will be used in excess of a normal year's accumulation.

Agency Funds are custodial in nature and do not measure the results of operations. Assets and liabilities are recorded using the modified accrual basis of accounting.

Proprietary Fund Types and Pension Trust Funds are accounted for on the flow of economic resources measurement focus.

The accounts of the proprietary fund types and pension trust funds are reported using the accrual basis of accounting. Under the accrual basis, revenues are recognized when they are earned, and expenses are recognized when they are incurred.

Lottery revenue and the related prize expense are recognized when sales are made. Certain prizes are payable in deferred installments. Such liabilities are recorded at the present value of amounts payable in the future.

For purposes of the statement of cash flows, the State considers all cash and pooled investments in the State's pooled investment program, as discussed in Note 3, to be cash and cash equivalents.

E. Inventories

Inventories are primarily stated at either the lower of average cost or market, or at cost utilizing the weighted average valuation method. In governmental fund types, inventories are recorded as expenditures when purchased. In proprietary fund types, inventories are expensed when consumed.

F. Net Investment in Direct Financing Leases

The State Public Works Board has entered into lease-purchase agreements with various state agencies, the University of California, and community colleges (see Note 6). The payments from these leases will be used to satisfy the principal and interest requirements of revenue bonds issued by the State Public Works Board to finance the construction of facilities for correctional and higher educational institutions, as well as energy efficiency projects for various state agencies. Upon expiration of these leases, jurisdiction of the facilities and projects will be with the respective institution, agency, or community college.

The State Public Works Board has entered into various capital lease agreements with the University of California, and in addition issues revenue bonds to finance the construction of these leased facilities. The State Public Works Board, which is audited by other auditors, records the net investment in direct financing leases at the net present value of the minimum lease payments.

G. Deferred Charges

The deferred charges account in the enterprise fund type primarily represents operating and maintenance costs and unrecovered

capital costs that will be recognized as expenses over the remaining life of long-term state water supply contracts. These costs are billable in future years. In addition, the account includes unbilled interest earnings on unrecovered capital costs that are recorded as deferred charges. These charges are recognized when billed in future years under the terms of the state water supply contracts.

H. Fixed Assets

The **General Fixed Assets Account Group** includes capital assets that are not assets of any specific fund, but rather of the government as a whole. Most of these assets arise from the expenditure of the financial resources of governmental funds and expendable trust funds used to acquire or construct them. The General Fixed Assets Account Group does not include fixed assets of proprietary funds or pension trust funds. These fixed assets are accounted for in their respective funds.

The General Fixed Assets Account Group is presented in the financial statements at cost or estimated historical cost. Donated fixed assets are stated at fair market value at the time of donation. Interest during construction has not been capitalized. Also, public domain or "infrastructure" fixed assets are not capitalized. Accumulated depreciation is not recorded in the General Fixed Assets Account Group. Purchased fixed assets are stated at historical cost.

The asset capitalization policy was changed effective November 14, 1995. Previously, property was capitalized if it had a normal useful life of four years and a unit acquisition cost of $500 for tangible property, and $5,000 for intangible property. Under the new policy, both tangible and intangible property are capitalized if the property has a normal useful life of at least one year and a unit acquisition cost of at least $5,000. Existing assets that no longer met the new capitalization threshold were removed from the General Fixed Assets Account Group. The change in the asset capitalization policy resulted in a decrease in fixed assets of $732 million, as demonstrated in Note 7.

Proprietary Fund Type fixed assets, consisting of property, plant, and equipment, are stated at cost at the date of acquisition, less accumulated depreciation (see Note 7). They are depreciated over their estimated useful lives, ranging from three to 100 years using the straight-line method of depreciation. Water projects, which represent 60.4% of the fixed assets of the enterprise funds, are depreciated over their service lives, ranging from 30 to 100 years. Toll bridges and California State University dormitory facilities, which represent 18.4% and 12.3% respectively of the fixed assets of the enterprise funds, are not depreciated.

I. Long-Term Obligations

The State reports long-term obligations of governmental funds in the General Long-Term Obligations Account Group. Long-term obligations consist of unmatured general obligation bonds, certain unmatured revenue bonds, long-term capital lease obligations and certificates of participation, commercial paper, the liability for

pension obligations, the liability for employees' compensated absences and workers' compensation claims, amounts owed for lawsuits, and the State's share of the University of California pension liability.

With approval in advance from the Legislature, certain authorities and state agencies may issue revenue bonds. Principal and interest on revenue bonds are payable from the pledged revenues of the respective funds of the authorities and agencies listed in Note 15. The General Fund has no legal liability for payment of principal and interest on revenue bonds. With the exception of the building authorities, which are included in capital projects funds, the liability for revenue bonds is recorded in the respective fund.

J. Compensated Absences

The amounts of vested unpaid vacation accumulated by state employees are accrued when incurred in proprietary funds, which use the accrual basis of accounting. In the governmental funds, only the amounts of compensated absences that normally would be liquidated with expendable available financial resources are accrued as current-year expenditures, such as costs associated with academic-year faculty of the California State University and the special schools of the California State Department of Education. The costs of the academic-year faculty represent services rendered over a ten month period but are paid over a 12-month period. The balance of the amounts owed for services rendered are reported as a current liability in the State's General Fund. Unless it is anticipated that compensated absences will be used in excess of a normal year's accumulation, no additional expenditures are accrued. As a result, the unpaid liability for governmental funds is recorded in the General Long-Term Obligations Account Group. Accumulated sick-leave balances are not included in the compensated absences because they do not vest to employees. However, unused sick-leave balances convert to service credits upon retirement.

K. Fund Equity

Fund equity accounts present the difference between assets and liabilities of a fund. The fund equity accounts consist of *contributed capital* and *retained earnings* for proprietary funds and certain component units, *investment in general fixed assets* for the General Fixed Assets Account Group and certain component units, and *fund balance* for governmental funds, trust funds, and certain component units.

Contributed capital is the permanent fund capital of a proprietary fund. Contributed capital is created when a residual equity transfer is received by a proprietary fund, when a general fixed asset is "transferred" to a proprietary fund, or when a grant is received that is externally restricted to capital acquisition or construction.

Retained earnings is divided into two sections: *reserved for regulatory requirements* and *unreserved.* The reserved for regulatory requirements represent a segregation of the retained earnings in enterprise funds and certain component units for amounts which

are unavailable for general use as a result of specific legal requirements. Unreserved retained earnings represent the accumulated earnings of proprietary funds and certain component units that are not reserved for any specific purpose.

The fund balances for governmental funds and trust funds are divided into two sections: *reserved* and *unreserved–undesignated.* Part or all of the total fund balance may be reserved as a result of law or generally accepted accounting principles. Reserves represent those portions of the fund balances that are legally segregated for specific uses. The reserves of the fund balance for governmental funds, trust funds, and component units are as follows:

Reserved for encumbrances represents goods and services that are ordered, but not received, by the end of the year.

Reserved for advances and loans receivable represents advances to other funds and the non-current portion of loans receivable that do not represent expendable available financial resources.

Reserved for employees' pension benefits represents pension trust fund reserves, which include accumulated contributions made by employees and employers, and undistributed interest and investment earnings.

Reserved for continuing appropriations represents the unencumbered balance of all appropriations for which the period of availability extends beyond the period covered by this report, the year ended June 30, 1996. These appropriations are legally segregated for a specific future use.

Reserved for other specific purposes includes trust and agency fund amounts of the Unemployment Fund and other expendable trust funds that are not available for future appropriations other than those for which the funds were established.

The *unreserved–undesignated* amounts represent the net of total fund balance, less reserves, for governmental funds and certain component units.

Investment in general fixed assets represents fixed assets of the University of California that are restricted for specific purposes, and the State's investment in capital assets reported in the General Fixed Assets Account Group (see Note 7).

L. Restatement of Beginning Fund Equity

The beginning retained earnings in the enterprise funds have been restated for $30 million to correct prior year amortization and accruals for revenues and expenses.

M. Guaranty Deposits

The State is custodian of guaranty deposits held to protect consumers, to secure the State's deposits in financial institutions, and to ensure payment of taxes and fulfillment of obligations to the State. Guaranty deposits of securities and other properties are not

shown on the financial statements.

N. Memorandum Only Total Columns

Total columns on the general purpose financial statements are captioned as "memorandum only" because they do not represent consolidated financial information and are presented only to facilitate financial analysis. The columns do not present information that reflects financial position, results of operations, or cash flows in accordance with generally accepted accounting principles. Interfund eliminations have not been made in the aggregation of this data.

NOTE 2. BUDGETARY AND LEGAL COMPLIANCE

A. Budgetary Data

The State's annual budget is prepared primarily on a modified accrual basis. The Governor recommends a budget for approval by the Legislature each year. This recommended budget includes estimated revenues; however, revenues are not included in the budget adopted by the Legislature. Under state law, the State cannot adopt a spending plan that exceeds estimated revenues.

Under the State Constitution, money may be drawn from the treasury only through a legal appropriation. The appropriations contained in the Budget Act, as approved by the Legislature and signed by the Governor, are the primary sources of annual expenditure authorizations, and establish the legal level of control at the appropriation level for the annual operating budget. The budget can be amended throughout the year by special legislative action, budget revisions by the Department of Finance, or executive orders by the Governor.

Amendments to the initial budget for the year ended June 30 were legally made, and are included in the budget data in the financial statements. The amendments had the effect of increasing spending authority and expenditures for the year.

Appropriations are generally available for expenditure or encumbrance either in the year appropriated or for a period of three years if the legislation does not specify a period of availability. At the end of the availability period, the encumbering authority for the unencumbered balance lapses. Some appropriations continue indefinitely while others are available until fully spent. Generally, encumbrances must be liquidated within two years from the end of the period when the appropriation is available. If the encumbrances are not liquidated within this additional two-year period, the spending authority for these encumbrances lapses.

Legislative appropriations are based on when commitments for goods and services are incurred. However, for financial reporting purposes, the State reports expenditures based on the year goods and services are received. The budgets reported in the Statements of Revenues, Expenditures, and Changes in Fund Balances, Budgetary Basis–Budget and Actual, have been adjusted to reflect the

differences between the financial reporting methodology and legislative appropriations to correctly state the budget variance. These statements include all the expenditures of the governmental funds and their related appropriations that are authorized annually, continually, or by project. Governmental funds that are budgeted annually include the General Fund, special revenue funds, and capital projects funds.

State agencies are responsible for exercising basic budgetary control and ensuring that appropriations are not overspent. The State Controller's Office is responsible for overall control of appropriations. Actual expenditures did not exceed appropriations. However, for special revenue funds and capital projects funds, estimated prior year expenditure accruals can differ from the actual amount paid in the current year. As a result, expenditure variances from the budget can be favorable or unfavorable.

In contrast, the beginning fund balance of the General Fund on a budgetary basis was restated by $114 million. This adjustment reflects the difference between the net expenditures and revenues that were accrued the previous June 30 and the amount of actual revenues and net expenditures that were subsequently realized. The beginning fund balance on the GAAP basis is not affected by these adjustments.

The State annually reports its financial condition based on GAAP (GAAP basis) and on the State's budgetary provisions (budgetary basis). The *Budgetary/Legal Basis Annual Report* is prepared in accordance with statutory and regulatory requirements and is used for reporting on the execution of the State's budget.

Financial activities are mainly controlled at the appropriation level but can vary depending on the presentation and wording contained in the Budget Act. Certain items which are established at the category, program, component, or element levels can be adjusted by the Department of Finance. While the financial activities are controlled at various levels, the legal level of budgetary control has been established in the Budget Act at the appropriation level for the annual operating budget.

The Combined Statement of Revenues, Expenditures, and Changes in Fund Balances Budgetary Basis-Budget and Actual and the related combining level and individual fund presentations are not presented in this document at the legal level of budgetary control, as such a presentation would be extremely lengthy and cumbersome. The State of California prepares a separate report, the *Budgetary/Legal Basis Annual Report Supplement*, which includes a statement that demonstrates compliance with the legal level of budgetary control, in accordance with GASB's Codification of Governmental Accounting and Financial Reporting Standards Section 2400.112. This statement, the Statement of Appropriations, Expenditures, and Balances does not include all of the expenditures

and appropriations of the governmental funds. However, it does include the comparison of the annual appropriated budget for governmental funds with expenditures at the legal level of control. A copy of this report, as prepared for the fiscal year ended June 30, 1996, is available from the State Controller's Office, Division of Accounting and Reporting, P.O. Box 942850, Sacramento, California 94250-5876.

B. Reconciliation of Budgetary Basis with GAAP Basis

The accounting records of state agencies are maintained on the budgetary basis for the primary purpose of maintaining accountability of the State's budget and other fiscal legislation; these records are used as the basis for audit. After the budgetary basis financial report is prepared, adjustments are made to prepare the GAAP basis financial statements. The Statements of Revenues, Expenditures, and Changes in Fund Balances Budgetary Basis – Budget and Actual are compiled on the budgetary basis for the governmental funds. The differences between budgetary fund balances as shown on these statements, and the fund balances prepared in accordance with GAAP are explained and reconciled in the following paragraphs and Table 1.

Advances and Loans Receivable: Loans made to other funds or to other governments are normally recorded as expenditures on the budgetary basis. However, in accordance with GAAP, these loans are recorded as assets. The General Fund provided loans totaling $935 million for education that will be forgiven and charged to expenditures in the future on a budgetary basis. On a GAAP basis, these loans are charged to expenditures this year since an agreement was made to forgive the loans. The adjustments related to advances and loans caused a decrease to the fund balance of $847 million in the General Fund and an increase to the fund balance of $1.3 billion in special revenue funds.

Escheat Property: Liability for the estimated amount of escheat property ultimately expected to be reclaimed and paid is required to be reported. This adjustment caused a $240 million decrease to the General Fund balance.

Liabilities Exceeding Available Appropriations: The State does not, on a budgetary basis, accrue liabilities for which there is no existing appropriation or no currently available appropriation. The adjustments made to this account for these liabilities in accordance with GAAP caused a net decrease to the General Fund balance of $481 million.

Authorized and Unissued Bonds: General obligation bonds that are not self-liquidating are recorded as additions to the fund balance for the special revenue and capital projects funds on the budgetary basis when voters authorize the sale of bonds. However, in accordance with GAAP, only the bonds issued during the year are recorded as bond proceeds. The adjustments related to authorized and unissued bonds caused a decrease to fund balance of $3.8 billion in special revenue funds and $3.5 billion in capital projects funds.

Encumbrances: The State does not record certain encumbrances for special revenue funds and capital projects funds on a budgetary basis that are recorded on a GAAP basis. The adjustments related to encumbrances caused an increase of $400 million in special revenue funds and $5 million in capital projects funds.

Other: Certain other adjustments and reclassifications are necessary to present the financial statements in accordance with GAAP. The other adjustments caused a decrease in fund balance of $274 million in the General Fund, $401 million in special revenue funds, and $27 million in capital projects funds.

Table 1

Reconciliation of Budgetary Basis and GAAP Basis Fund Balances
June 30, 1996 (Amounts in thousands)

Reconciliation Items	General Fund	Special Revenue Funds	Capital Projects Funds
Budgetary Basis	**$ 1,073,851**	**$ 8,078,292**	**$ 3,591,766**
Advances and loans receivable	(847,197)	1,300,670	—
Escheat property	(240,323)	—	—
Liabilities exceeding available appropriations	(480,902)	—	—
Authorized and unissued bonds	—	(3,773,380)	(3,519,088)
Encumbrances	—	400,134	5,105
Other	(274,209)	(400,529)	(27,173)
GAAP Basis (Deficit)	**$ (768,780)**	**$ 5,605,187**	**$ 50,610**

NOTE 3. DEPOSITS AND INVESTMENTS

The State Treasurer's Office administers a pooled investment program. This program enables the State Treasurer's Office to combine available cash from all funds and to invest cash that exceeds current needs. The enterprise, trust and agency funds, and a building authority in the capital projects fund type also make separate investments.

As of June 30, 1996, the average remaining life of the securities in the pooled money investment account administered by the State Treasurer's Office was approximately 291 days.

The State Treasurer's Office also has agreements with certain banks to maintain cash on deposit that does not earn interest income for the State. Income earned on these deposits compensates the banks for services and uncleared checks that are deposited in the State's accounts.

All **Demand and Time Deposits**, totaling approximately

$638 million, which were held by financial institutions at year end, were insured by federal depository insurance or by collateral held by the State or by an agent of the State in the State's name. The California Government Code requires collateral pledged for demand and time deposits to be deposited with the State Treasurer.

As of June 30, 1996, the State had amounts on deposit with fiscal agents totaling approximately $15 million. These deposits are related to state investment activities and to principal and interest payments due to bondholders. These deposits are insured by federal depository insurance or by collateral held by an agent of the State in the State's name.

State statutes, bond resolutions, and investment policy resolutions allow the State to have **Investments** in United States government securities, Canadian government securities, certificates of deposit, bankers' acceptances, commercial paper, corporate bonds, bank notes, mortgage loans and notes, other debt securities, repurchase agreements, reverse repurchase agreements, equity securities, real estate, mutual funds, and other investments.

As of June 30, 1996, the State had investments in real estate, investment contracts, annuity contracts, mutual funds, and other investments, totaling $14.6 billion. These investments are not subject to classification. All remaining investments reported as of June 30, 1996, are categorized in three categories of credit risk:

1. Insured or registered, or securities held by the State or its agent in the State's name.
2. Uninsured and unregistered, with securities held by the counterparty's trust department or by an agent in the State's name.
3. Uninsured and unregistered, with securities held by the counterparty or by its trust department or by an agent but not in the State's name.

The types of investments reported at year end are representative of the types of investments made during the year. Furthermore, the credit risk associated with the investments reported at year end is representative of the credit risk associated with investments made during the year.

The market values of the investments in certain certificates of deposit, commercial paper, bank notes, and repurchase agreements for the pooled investments approximate their carrying values because of the short-term nature of those securities.

The investments of pension trust funds are reported at fair value (see Note 22). Investments of the Deferred Compensation Plan Fund are reported at market value. All other investments are reported at cost or amortized cost. For these investments, no loss is recorded when market values decline below cost, as such declines are considered temporary. Table 2 presents the carrying value and

Table 2

Schedule of State Investments
June 30, 1996 (Amounts in thousands)

	Category 1	Category 2	Category 3	Carrying Value	Market Value
Pooled Investments					
Government Securities:					
U.S. and U.S. agency	$ 10,130,091	$ —	$ —	$ 10,130,091	$ 10,151,398
Certificates of deposit	5,209,165	—	—	5,209,165	5,250,629
Bankers' acceptances	577,408	—	—	577,408	578,021
Commercial paper	5,991,749	—	—	5,991,749	5,999,363
Corporate bonds	2,019,109	—	—	2,019,109	2,011,353
Bank notes	1,240,097	—	—	1,240,097	1,247,322
Total Pooled Investments	**25,167,619**	**—**	**—**	**25,167,619**	**25,238,086**
Separately Invested Funds Subject to Categorization					
Government Securities:					
U.S. and U.S. agency	29,509,490	79,337	—	29,588,827	29,734,929
Canadian government	1,669,142	—	—	1,669,142	1,669,142
Certificates of deposit	3,210	—	—	3,210	3,210
Commercial paper	2,205,609	—	—	2,205,609	2,205,609
Corporate bonds	15,901,421	—	—	15,901,421	15,901,926
Mortgage loans and notes	11,350,931	—	—	11,350,931	11,350,931
Other debt securities	768,733	—	—	768,733	768,733
Repurchase agreements	4,084	—	—	4,084	4,084
Equity securities	71,510,363	—	—	71,510,363	71,510,363
Other investments	21,644,275	—	—	21,644,275	21,644,257
Total Separately Invested Funds Subject To Categorization	**154,567,258**	**79,337**	**—**	**154,646,595**	**154,793,184**
Separately Invested Funds Not Subject to Categorization					
Real Estate				7,554,295	7,554,295
Investment contracts				1,865,795	1,865,795
Annuity contracts				25,230	25,230
Mutual funds				2,596,326	2,596,945
Other investments				2,530,113	2,530,113
Total Separately Invested Funds Not Subject to Categorization				**14,571,759**	**14,572,378**
Total Investments	**$ 179,734,877**	**$ 79,337**	**$ —**	**$ 194,385,973**	**$ 194,603,648**

market value of the investments that were reported by the State on June 30, 1996.

At June 30, 1996, floating rate notes and mortgage-backed assets comprised less than 5% of the pooled investments. For the floating rate notes in the portfolio, the interest received by the State will rise or fall as the underlying index rate rises or falls. The structure of the floating rate notes in the State's portfolio is such that it hedges the portfolio against the risk of increasing interest rates. The mortgage-backed securities are called real estate mortgage investment conduits (REMICs), which is a security backed by a pool of mortgages. The REMICs found in the State's portfolio have a fixed principal payment schedule.

The California Government Code allows the State to enter into **Reverse Repurchase Agreements**, as part of its pooled investment program. A reverse repurchase agreement is a sale of securities with a simultaneous agreement to repurchase them in the future at the same price plus a contract rate of interest. The market value of the securities underlying reverse repurchase agreements normally exceeds the cash received, providing the dealers a margin against a decline in market value of the securities. If the dealers default on their obligations to resell these securities to the State or provide securities or cash of equal value, the State will suffer an economic loss equal to the difference between the market value plus the accrued interest of the underlying securities and the agreement obligation, including accrued interest. During year ended June 30, 1996, the State entered into 31 reverse repurchase agreements by temporarily selling investments with a carrying value of approximately $3.6 billion. The maturities of investments made with the proceeds from reverse repurchase agreements were matched to the maturities of the agreements. At June 30, 1996, the State did not have any reverse repurchase agreements outstanding.

NOTE 4. DUE FROM OTHER FUNDS, DUE TO OTHER FUNDS, ADVANCES AND LOANS RECEIVABLE, ADVANCES FROM OTHER FUNDS, DUE FROM PRIMARY GOVERNMENT, AND DUE TO COMPONENT UNITS

The balances of Due from Other Funds, Due to Other Funds, Advances and Loans Receivable, Advances from Other Funds, Due from Primary Government, and Due to Component Units are shown in Table 3.

The total Advances and Loans Receivable is $8.7 billion more than the total Advances from Other Funds, because loans to other governmental entities and individuals are included in the loans receivable amounts. The total Due to Component Units is $167 million more than the total Due from Primary Government because of accounting practices of the State Compensation Insurance Fund, which is audited by other auditors. The State Compensation Insurance Fund has not recorded $167 million as Due from Primary Government for reimbursement of the amount of claims received as of June 30 and expected to be paid in the following year.

Table 3

Schedule of Due from Other Funds, Due to Other Funds, Advances and Loans Receivable, Advances from Other Funds, Due from Primary Government, and Due to Component Units

June 30, 1996 (Amounts in thousands)

	Due from Other Funds	Due to Other Funds	Advances and Loans Receivable	Advances from Other Funds	Due from Primary Government	Due to Component Units
General Fund	$ 4,824,173	$ 4,205,258	$ 762,497	$ 343,378	$ —	$ 182,122
Special Revenue:						
Federal	150,881	3,305,539	22,909	—	—	3,493
Transportation Construction	1,052,259	67,198	109,215	—	—	17,904
Transportation Safety	173,647	108,648	—	—	—	25,463
Business and Professions Regulatory and Licensing	135,793	50,019	7,012	5,557	—	2,538
Environmental and Natural Resources	252,346	90,296	1,051,001	25,711	—	2,911
Financing to Local Governments	13,169	5,455	1,490	—	—	—
Cigarette and Tobacco Tax	87,113	122,163	—	—	—	27,966
Local Revenue	302,270	27,934	—	—	—	—
Unemployment Programs	405,143	36,267	—	—	—	5,371
Financing to the Public	44,738	1,129	15,719	—	—	—
Other Special Revenue	198,013	346,773	93,324	11,396	—	309
Total Special Revenue	**2,815,372**	**4,161,421**	**1,300,670**	**42,664**	**—**	**85,955**
Capital Projects:						
Special Account for Capital Outlay	8,049	7,070	—	—	—	—
Prison Construction	145	2,922	—	—	—	—
Higher Education Construction	574	1,213	—	—	—	—
Natural Resources Acquisition and Enhancement	25,780	1,298	—	—	—	—
Building Authorities	37,987	22,852	—	—	—	—
Other Capital Projects	7	198	—	1,138	—	—
Total Capital Projects	**72,542**	**35,553**	**—**	**1,138**	**—**	**—**
Enterprise:						
Housing Loan	4,499	3,094	2,354,849	134,260	—	—
Water Resources	72,215	35,891	79,843	50,312	—	—
School Building Aid	—	61,201	191,106	—	—	1,556
Toll Facilities	12,506	14,865	6,234	6,160	—	—
California State University	11,105	9,855	2,663	2,663	—	—
Leasing of Public Assets	119,198	16,335	—	—	—	1,023
State Lottery	8,015	189,700	—	—	—	—
Harbors and Watercraft	2,455	3,449	195,974	—	—	—
Health Facilities Construction Loan Insurance	3,909	124	—	—	—	—
Other Enterprise	7,745	1,384	27,911	6,382	—	—
Total Enterprise	**241,647**	**335,898**	**2,858,580**	**199,777**	**—**	**2,579**
Internal Service:						
Architecture Revolving	50,835	16,391	—	—	—	881
Service Revolving	78,389	86,856	—	—	—	9,147
Prison Industries	28,889	3,049	—	1,278	—	7,219
Stephen P. Teale Data Center	18,854	392	—	—	—	701
Health and Welfare Agency Data Center	46,809	16	—	—	—	—
Water Resources	49,990	596	—	91,877	—	936
Other Internal Service	2,323	10,610	—	1,731	—	—
Total Internal Service	**276,089**	**117,910**	**—**	**94,886**	**—**	**18,884**

(Continued)

Table 3 (continued)

Schedule of Due from Other Funds, Due to Other Funds, Advances and Loans Receivable, Advances from Other Funds, Due From Primary Government, and Due to Component Units
June 30, 1996 (Amounts in thousands)

	Due from Other Funds	Due to Other Funds	Advances and Loans Receivable	Advances from Other Funds	Due from Primary Government	Due to Component Units
Expendable Trust:						
Unemployment	16,949	76,836	—	—	—	—
School Employees	2,353	6,778	—	—	—	—
Unemployment Compensation Disability	68,616	10,320	—	—	—	—
California State University and Colleges Trust	43,753	7,782	—	125	—	—
State Guaranteed Loan Reserve	7,501	674	—	—	—	—
Housing Loan	2,159	777	491,864	—	—	—
Unclaimed Property Fund	29,000	—	240,323	—	—	—
Public Employees Health Care	5,615	1,976	—	—	—	—
Other Expendable Trust	41,952	10,887	14,000	—	—	—
Total Expendable Trust	**217,898**	**116,030**	**746,187**	**125**	**—**	**—**
Pension Trust:						
Public Employees' Retirement	1,070,447	—	—	—	—	—
Teachers' Retirement	61,291	—	—	—	—	—
Judges' Retirement	708	296	—	—	—	—
Legislators' Retirement	—	196	—	—	—	—
Volunteer Firefighters' Length of Service	—	—	—	—	—	—
Total Pension Trust	**1,132,446**	**492**	**—**	**—**	**—**	**—**
Agency:						
Local Agency Investment	159,225	55,716	—	—	—	—
Revenue Collecting and Disbursing	5,235,525	5,452,679	636,179	644,179	—	—
Deposit	19,784	451,080	20,944	456	—	—
Deferred Compensation Plan	19,125	332	—	—	—	—
Departmental Trust	582	696	—	—	—	—
Other Agency	198,254	279,593	2,116	—	—	2,519
Total Agency	**5,632,495**	**6,240,096**	**659,239**	**644,635**	**—**	**2,519**
University of California:						
Current Funds	1,107	123,502	—	—	111,249	—
Loan Funds	—	2,000	—	—	—	—
Endowment and Similar Funds	12,896	—	—	—	—	—
Plant Funds	745	12,748	—	—	—	—
Retirement System Funds	123,502	—	—	—	—	—
Total University of California	**138,250**	**138,250**	**—**	**—**	**111,249**	**—**
Special Purpose Authorities:						
State Compensation Insurance	—	—	—	—	9,965	—
Housing Finance Agency	—	—	3,731,656	—	—	—
Alternative Energy and Advanced Transportation	—	—	—	—	—	—
Pollution Control	20	—	—	—	2,633	—
Health Facilities	2	—	4,478	—	598	—
Educational Facilities	—	—	—	—	304	—
School Finance Authority	—	—	—	—	—	—
Economic Development	—	—	—	—	11	—
District Agricultural Associations	717	730	—	—	—	—
San Joaquin River Conservancy	—	13	—	—	—	—
Total Special Purpose Authorities	**739**	**743**	**3,736,134**	**—**	**13,511**	**—**
Total	**$ 15,351,651**	**$ 15,351,651**	**$ 10,063,307**	**$ 1,326,603**	**$ 124,760**	**$ 292,059**

(Concluded)

NOTE 5. RESTRICTED ASSETS

Table 4 presents a summary of the legal restrictions on assets of the enterprise funds and the purposes for which the assets were restricted as of June 30, 1996.

Table 4

Schedule of Enterprise Fund Restricted Assets
June 30, 1996 (Amounts in thousands)

	Cash and Pooled Investments	Investments	Due From Other Funds	Other Assets
Debt service	$ 379,248	$ 271,974	$ 581	$ 166
Construction	623,431	—	7,500	752
Deposits	6,438	—	—	—
Equipment repair and replacement	66,233	—	2,393	55
Operations	7,221	—	—	—
Other	12,300	—	—	—
Total	**$ 1,094,871**	**$ 271,974**	**$ 10,474**	**$ 973**

On June 30, 1996, $132,000 in cash and pooled investments of the internal service funds were restricted for property and equipment acquisitions.

NOTE 6. NET INVESTMENT IN DIRECT FINANCING LEASES

The State Public Works Board has entered into lease-purchase agreements with various state agencies, the University of California, and community colleges (see Note 12). The payments from these leases will be used to satisfy the principal and interest requirements of revenue bonds issued by the State Public Works Board to finance the construction of facilities for correctional and higher educational institutions and energy efficiency projects for various state agencies. Upon expiration of these leases, jurisdiction of the facilities and projects will be with the respective institution, agency, or community college.

The minimum lease payments to be received are summarized in Table 5.

Table 5

Schedule of State Public Works Board Lease Purchase Agreements
(Amounts in thousands)

Year Ending June 30	State Agencies	University of California	Community Colleges	Total
1997	$ 315,657	$ 95,356	$ 35,033	$ 446,046
1998	323,389	97,106	37,297	457,792
1999	314,744	97,149	37,247	449,140
2000	313,407	97,416	37,245	448,068
2001	300,772	94,231	37,066	432,069
Thereafter	3,944,486	1,395,252	521,348	5,861,086
Total Minimum Lease Payments	**5,512,455**	**1,876,510**	**705,236**	**8,094,201**
Less unearned income	2,661,152	921,908	357,693	3,940,753
Net Investment in Direct Financing Leases	**$ 2,851,303**	**$ 954,602**	**$ 347,543**	**$ 4,153,448**

The State Public Works Board has entered into various capital lease agreements with the University of California. The State Public Works Board issues revenue bonds to finance the construction of these leased facilities. The State Public Works Board, which is audited by other auditors, records the net investment in direct financing leases at the net present value of the minimum lease payments. At June 30, 1996, these bonds and the related net investment in direct financing leases, totaling approximately $1.1 billion and $954 million, respectively, are presented in the enterprise fund type.

NOTE 7. FIXED ASSETS

Table 6 is a summary of changes in the General Fixed Assets Account Group for the year ended June 30, 1996.

Table 6

Schedule of Changes in General Fixed Assets
(Amounts in thousands)

	Balance July 1, 1995	Capitalization Policy Adjustment (Deductions)	Additions	Other (Deductions)	Balance June 30, 1996
Land	$ 1,834,121	$ 647	$ 132,978	$ 9,198	$ 1,957,254
Structures and improvements	8,703,204	12,160	1,706,101	333,546	10,063,599
Equipment	2,982,180	719,227	340,096	370,318	2,232,731
Construction in progress	859,205	—	86,642	171,473	774,374
Total	**$ 14,378,710**	**$ 732,034**	**$ 2,265,817**	**$ 884,535**	**$ 15,027,958**

Table 7 summarizes the fixed assets of the enterprise funds and internal service funds as of June 30, 1996.

Table 7

Schedule of Proprietary Fund Type Fixed Assets
June 30, 1996 (Amounts in thousands)

Fixed Assets	Enterprise	Internal Service
State water projects	$ 3,457,579	$ —
Toll facilities	989,399	—
Other land, improvements, buildings and equipment	973,503	573,214
Construction in progress	1,246,411	967
Total Fixed Assets	**6,666,892**	**574,181**
Less accumulated depreciation	1,206,472	325,827
Net Fixed Assets	**$ 5,460,420**	**$ 248,354**

NOTE 8. LONG-TERM OBLIGATIONS

As of June 30, 1996, the State had long-term obligations totaling $20.5 billion. These obligations are not expected to be financed from current resources in the governmental funds. Long-term obligations consist of the liability for employees' compensated absences, certificates of participation and commercial paper, long-term capital lease obligations, unmatured general obligation bonds, unmatured revenue bonds, and other liabilities. These other liabilities consist of the liability for pension obligations of $588 million, the liability for workers' compensation claims of $566 million, amounts owed for lawsuits of $336 million, and the State's share of the University of California pension liability of $108 million. These other liabilities do not have any required payment schedules, or will be paid when funds are appropriated. Of the total long-term obligations outstanding, 95% will be paid by the General Fund and 5% by special revenue funds. The changes in the General Long-Term Obligations Account Group during the year ended June 30, 1996 are summarized in Table 8.

Table 8

Schedule of Changes in General Long-Term Obligations
(Amounts in thousands)

	Balance July 1, 1995	Additions	Deductions	Balance June 30, 1996
Compensated absences payable	$ 1,149,321	$ 577,040	$ 570,288	$ 1,156,073
Certificates of participation and commercial paper	151,890	130,500	21,995	260,395
Capital lease obligations	2,248,201	839,717	94,326	2,993,592
General obligation bonds payable	14,843,814	621,893	1,241,535	14,224,172
Revenue bonds payable	242,670	80,835	84,110	239,395
Other liabilities	1,537,209	934,178	873,821	1,597,566
Totals	**$ 20,173,105**	**$ 3,184,163**	**$ 2,886,075**	**$ 20,471,193**

NOTE 9. COMPENSATED ABSENCES

As of June 30, 1996, the State's estimated liability for compensated absences related to accumulated vacation leave totaled approximately $1.3 billion. Of this amount, $1.2 billion is reported in the General Long-Term Obligations Account Group, $69 million is reported in the proprietary fund types, and $95 million is reported in the State's General Fund.

NOTE 10. CERTIFICATES OF PARTICIPATION

Debt service requirements for certificates of participation, which are financed by lease payments from the General Fund, are shown in Table 9.

Table 9

Schedule of Debt Service Requirements for Certificates of Participation
(Amounts in thousands)

Year Ending June 30	Principal	Interest	Total
1997	$ 8,350	$ 6,039	$ 14,389
1998	8,830	5,551	14,381
1999	7,183	7,187	14,370
2000	7,035	7,632	14,667
2001	7,174	7,175	14,349
Thereafter	91,323	83,119	174,442
Total	**$ 129,895**	**$ 116,703**	**$ 246,598**

NOTE 11. COMMERCIAL PAPER

The State has two commercial paper borrowing programs: a general obligation commercial paper program of up to $1 billion and a Department of Water Resources commercial paper program of up to $150 million. Under these programs, the State may issue commercial paper at prevailing interest rates for periods of not more than 270 days from the date of issuance. To provide liquidity for the programs, the State entered into a revolving credit agreement with commercial banks equal to the authorized amount of commercial paper. At June 30, 1996, there were borrowings of approximately $131 million of general obligation commercial paper and $21 million of Department of Water Resources commercial paper outstanding. The proceeds from the issuance of commercial paper are restricted primarily to the construction costs of general obligation bond program projects and of certain State water projects. Because the general obligation commercial paper is retired by long–term general obligation debt, it is recorded in the General Long–Term Obligations Account Group. The Department of Water Resources commercial paper is accounted for in the enterprise fund type.

NOTE 12. LEASES

The aggregate amount of lease commitments for facilities and equipment in effect as of June 30, 1996, is approximately $6.5 billion. This amount does not include any future escalation charges for real estate taxes and operating expenses. Most state leases are classified as operating leases, in accordance with the applicable standards. Most state operating leases contain clauses providing for termination. It is expected that in the normal course of business most of these leases will be replaced by similar leases.

The method of calculating the minimum lease commitments was changed to more accurately reflect the minimum commitment amount. Previously, the schedule of minimum lease commitments for operating leases was calculated using the end of the lease date, rather than the date when the State has the right to cancel the lease with one month's notice. As a result, the total minimum lease commitment amount for operating leases was reduced by $831 million. Under the previous method of calculation, the amount would have been $1.5 billion. This amount represents the total potential operating lease payments, including the amount for time periods after the date when the State has the right to cancel the lease. The minimum lease commitments are summarized in Table 10.

Table 10

Schedule of Minimum Lease Commitments
(Amounts in thousands)

Year Ending June 30	Operating Leases	Capital Leases	Total
1997	$ 195,804	$ 355,660	$ 551,464
1998	154,685	345,425	500,110
1999	105,899	336,414	442,313
2000	56,267	334,307	390,574
2001	36,842	319,627	356,469
Thereafter	89,804	4,200,238	4,290,042
Total Minimum Lease Payments	**$ 639,301**	**5,891,671**	**$ 6,530,972**
Less amount representing interest		2,865,432	
Present Value of Net Minimum Lease Payments		**$ 3,026,239**	

The total present value of minimum lease payments is composed of approximately $3.0 billion reported in the General Long-Term Obligations Account Group, $313,000 in enterprise funds, and $32 million in internal service funds. Lease expenditures for the year ended June 30, 1996, amounted to approximately $604 million.

Included in the capital lease commitments are lease-purchase agreements that certain state agencies have entered into with the State Public Works Board, an enterprise fund type, amounting to a present value of net minimum lease payments of $2.9 billion. This amount represents 94% of the total present value of minimum lease payments (see Note 6).

Also included in the capital lease commitments are some lease-purchase agreements to acquire electronic data processing and other equipment.

The capital lease commitments presented in Tables 8 and 10 do not include lease-purchase agreements with building authorities that are blended component units. These building authorities acquire or develop office buildings and then lease the facilities to the State. Upon expiration of the leases, title will pass to the State. The State reports the costs of the buildings in the General Fixed Assets Account Group and the revenue bonds and certificates of participation outstanding associated with the buildings in the General Long-Term Obligations Account Group. Accordingly, the State does not include lease receivables or capital lease obligations associated with these buildings in its financial statements pursuant to GASB Statement No. 14.

Table 11 presents a summary of minimum lease commitments for office buildings financed by building authorities.

Table 11

Schedule of Minimum Lease Commitments for Building Authorities
June 30, 1996 (Amounts in thousands)

Leases with Building Authorities	Present Value of Minimum Lease Payments	Interest	Total Minimum Lease Payments
Los Angeles State Building Authority	$ 166,517	$ 87,399	$ 253,916
East Bay State Building Authority	99,440	77,732	177,172
California State University Headquarters Building Authority	2,058	403	2,461
San Francisco State Building Authority	52,006	31,489	83,495
Total	**$ 320,021**	**$ 197,023**	**$ 517,044**

NOTE 13. COMMITMENTS

The State has made commitments of $3.1 billion for certain highway construction projects. These commitments are not included as a liability or in the reserve for encumbrances in the special revenue funds because the future expenditures related to these commitments are expected to be reimbursed from local governments and proceeds of approved federal grants. The ultimate liability will not accrue to the State.

As of June 30, 1996, the State had other commitments totaling $2.9 billion, which are not included as a liability on the balance sheet. These commitments included loan and grant programs for housing, school building aid, and rail system and county jail construction, totaling approximately $1.9 billion. The total commitments also include approximately $55 million for the rehabilitation of toll bridge facilities, approximately $915 million for the construction of water projects and the purchase of power, and up to $78 million for the operation and maintenance of the lottery's automated gaming system. The commitments are expected to be funded from existing program resources and from the proceeds of revenue and general obligation bonds to be issued.

NOTE 14. GENERAL OBLIGATION BONDS

The State Constitution permits the State to issue general obligation bonds for specific purposes and in such amounts as approved by a two-thirds majority of both houses of the Legislature and by a majority of voters in a general or direct primary election. The debt service for general obligation bonds is appropriated from the General Fund. Under the State Constitution, the General Fund is used, first, to support the public school system and public institutions of higher education. The General Fund can then be

used to service the debt on outstanding general obligation bonds. Enterprise funds and certain other funds reimburse the General Fund for any debt service provided on their behalf.

General obligation bonds that are directly related to and expected to be paid from the resources of enterprise funds are included within the accounts of such funds in the financial statements. However, the General Fund may be liable for the payment of any principal and interest on these bonds that is not met from the resources of such funds.

On June 30, 1996, $7.8 billion of general obligation bonds had been authorized but not issued. This amount includes $3.3 billion that has been authorized by the applicable finance committee for future issuance in the form of commercial paper notes. The $7.8 billion excludes $131 million in bonds that has been issued in the form of commercial paper notes, but has not yet been retired by long-term bonds (see Note 11 for more information on commercial paper programs).

Table 12 summarizes the changes in general obligation bond debt for the year ended June 30, 1996.

Table 12

Schedule of Changes in General Obligation Bond Debt
(Amounts in thousands)

	General Long-Term Obligations	Enterprise Funds	Total
Balance July 1, 1995	$ 14,843,814	$ 4,233,490	$ 19,077,304
Additions	621,893	—	621,893
Deductions	(1,241,535)	(251,205)	(1,492,740)
Balance June 30, 1996	**$ 14,224,172**	**$ 3,982,285**	**$ 18,206,457**

Table 13 shows the debt service requirements for all general obligation bonds, including interest of $10.9 billion, as of June 30, 1996.

Table 13

Schedule of General Obligation Bonds Debt Service Requirements
(Amounts in thousands)

Year Ending June 30	General Long-Term Obligations	Enterprise Funds
1997	$ 1,900,135	$ 477,254
1998	1,760,072	449,133
1999	1,680,939	433,441
2000	1,612,316	437,668
2001	1,554,711	432,453
Thereafter	13,835,340	4,505,581
Total	**$ 22,343,513**	**$ 6,735,530**

Defeasances for Year Ended June 30, 1996: On October 26, 1995, the State issued approximately $81 million in various purpose general obligation refunding bonds (the "1995 Bonds") for an advance refunding of approximately $81 million in outstanding general obligation bonds maturing in fiscal year 1995-96 (the "1995 Refunded Bonds"). The State invested the net proceeds of approximately $81 million in U.S. government securities and placed the securities in an irrevocable trust to pay debt service on the 1995 Refunded Bonds. The monies that the General Fund would otherwise have paid toward debt service on the 1995 Refunded Bonds were used to exercise the State's right to redeem approximately $83 million in outstanding general obligation bonds issued prior to 1988 (the "Redeemed Bonds") on their interest payment dates of December 1, 1995, January 1, 1996, February 1, 1996, April 1, 1996, and May 1, 1996. As a result, the 1995 Refunded Bonds and the Redeemed Bonds are no longer outstanding.

This advance refunding was undertaken to reduce total debt service payments though January 1, 2001, by approximately $7 million and to obtain an economic gain (the difference between the present values of the debt service payments on the 1995 Bonds and the Redeemed Bonds) of approximately $4 million.

On March 19, 1996, the State issued approximately $160 million in various purpose general obligation refunding bonds (the "1996 Bonds") to advance refund approximately $139 million of outstanding various purpose general obligation bonds (the "1996 Refunded Bonds"). The net proceeds of approximately $159 million together with $6 million received by the State through execution of a forward supply contract were used to purchase U.S. government securities. Those securities are held by the State Treasurer's Office in an irrevocable trust to provide for all future debt service payments and redemption premium on the 1996 Refunded Bonds. As a result, the 1996 Refunded Bonds are considered to be defeased and the liability for those bonds has been removed from the General

Long-Term Obligations Account Group.

The State advance refunded the 1996 Refunded Bonds to reduce its total debt service payments through November 1, 2024, by approximately $17 million and to obtain an economic gain (the difference between the present values of the debt service payments on the 1996 Bonds and the 1996 Refunded Bonds) of approximately $10 million.

Prior Year Defeasance: In prior years, the State has defeased certain bonds by placing the proceeds of new bonds in irrevocable escrow in a special trust account with the State Treasury to provide for all future debt service payments on the old bonds. Accordingly, the assets of the trust accounts and the liability for the defeased bonds are not included in the State's financial statements. At June 30, 1996, approximately $130 million of general obligation bonds outstanding are considered defeased.

NOTE 15. REVENUE BONDS

Under state law, the California State University and Colleges Headquarters Building Authority (CSUHQ), the Los Angeles State Building Authority (LASBA), and the San Francisco State Building Authority (SFSBA) may issue revenue bonds. These revenue bonds are included in the General Long-Term Obligations Account Group. The CSUHQ issues bonds for the purpose of acquiring and constructing buildings for public education purposes, including a headquarters building for the trustees. The LASBA and SFSBA issue bonds for the purpose of constructing state office buildings.

A lease with the Trustees of the California State University pays the principal and interest on the revenue bonds issued by the CSUHQ. Leases with the State pay the principal and interest on the revenue bonds issued by LASBA and SFSBA (see Note 1). The primary government has no legal liability for the payment of principal and interest on the revenue bonds of the CSUHQ, the LASBA, and the SFSBA.

Revenue bonds that are directly related to and expected to be paid from the resources of enterprise funds are included within the accounts of such funds. Principal and interest on revenue bonds are payable from the pledged revenues of the respective funds of the authorities and agencies listed in the next section of this note. The General Fund has no legal liability for payment of principal and interest on revenue bonds.

The Department of Water Resources, the California State University, the California Transportation Commission, and the State Public Works Board issue revenue bonds to acquire, construct, or renovate state facilities or to refund outstanding revenue bonds in advance. The Department of Veterans Affairs issues revenue bonds allowing the State to make loans to finance the acquisition of farms and

homes by California veterans. When the farm and home loans financed by the revenue bonds are fully paid, the farms and homes become the property of private individuals.

Table 14 shows revenue bonds outstanding as of June 30, 1996.

Table 14

Schedule of Revenue Bonds Outstanding
June 30, 1996 (Amounts in thousands)

General Long-Term Obligations:	
Los Angeles State Building Authority	$ 179,355
San Francisco State Building Authority	58,635
California State University and Colleges Headquarters Building Authority	1,405
Total General Long–Term Obligations	**239,395**
Enterprise Funds:	
State Public Works Board	5,431,442
Department of Water Resources	2,225,329
Department of Veterans Affairs	374,975
California State University	330,308
California Transportation Commission	56,850
Total Enterprise Funds	**8,418,904**
Total Revenue Bonds	**$ 8,658,299**

Table 15 shows the debt service requirements for revenue bonds as of June 30, 1996. The debt service requirements primarily represent bond principal payments. The Table also includes certain unamortized refunding costs, premiums, discounts, and other costs.

Table 15

Schedule of Revenue Bond Debt Service Requirements
(Amounts in thousands)

Year Ending June 30	General Long-Term Obligations	Enterprise Funds
1997	$ 22,531	$ 257,513
1998	22,846	296,929
1999	22,868	327,866
2000	22,891	337,560
2001	22,903	345,741
Thereafter	242,447	7,118,748
Total	**$ 356,486**	**$ 8,684,357**

Defeasances for Year Ended June 30, 1996: On September 1, 1995, the State Public Works Board issued approximately $16 million in revenue bonds to advance refund approximately $18 million of outstanding 1986 Series A bonds. The net proceeds of approximately $16 million (after payment of approximately

$400,000 in underwriting fees, insurance, and other issuance costs) plus an additional $4 million from funds and accounts established under prior indentures (CSU, 1986 Series A) were deposited in an irrevocable trust with the State Treasurer to provide for all future debt service payments on the refunded bonds. As a result, the 1986 Series A bonds are considered to be defeased and the liability for those bonds has been removed from the financial statements, as well as the related investments. The State Public Works Board advance refunded the 1986 Series A bonds to reduce its total debt service payments over the next 10 years by approximately $5 million and to obtain an economic gain (the difference between the present values of the debt service payments on the old and new debt) of approximately $4 million.

On October 2, 1995, the State Public Works Board issued approximately $28 million in revenue bonds to advance refund approximately $37 million of outstanding 1986 Series A bonds. The net proceeds of approximately $28 million (after payment of approximately $700,000 in underwriting fees, insurance, and other issuance costs) together with other available monies of approximately $11 million were deposited in an irrevocable trust with the State Treasurer to provide for all future debt service payments on the refunded bonds. As a result, the 1986 Series A bonds are considered to be defeased and the liability for those bonds has been removed from financial statements, as well as the related investments. The State Public Works Board advance refunded the 1986 Series A bonds to reduce its total debt service payments over the next five years by approximately $14 million and to obtain an economic gain (the difference between the present values of the debt service payments on the old and new debt) of approximately $2 million.

On April 23, 1996, the California State University Board of Trustees (University) issued approximately $23 million in San Jose Student Union Revenue Bonds to advance refund approximately $23 million of outstanding San Jose Student Union Series B and C bonds. The net proceeds of approximately $23 million (after payment of $77,000 in underwriting fees, insurance, and other issuance costs) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with the State Treasurer to provide for all future debt service payments on the refunded bonds. As a result, the Series B and C bonds are considered to be defeased and the liability for those bonds has been removed from the financial statements, as well as the related investments. The University advance refunded the Series B and C bonds to reduce its total debt service payments over the next 24 years by approximately $6 million and to obtain an economic gain (the difference between the present values of the debt service payments on the old and new debt) of approximately $2 million.

On April 23, 1996, the University also issued approximately $138 million in Housing System Revenue Bonds to advance refund approximately $135 million of outstanding Housing System Series

AD, AI, AJ, AK, AL, AM, AN, AP, AQ, and AR bonds. The net proceeds of approximately $138 million (after payment of approximately $500,000 in underwriting fees, insurance, and other issuance costs) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with the State Treasurer to provide for all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability for those bonds has been removed from the financial statements, as well as the related investments. The University advance refunded the Series AD, AI, AJ, AK, AL, AM, AN, AP, AQ, and AR bonds to reduce its total debt service payments over the next 26 years by approximately $18 million and to obtain an economic gain (the difference between the present values of the debt service payments (on the old and new debt) of approximately $8 million.

In December 1995, the Los Angeles State Building Authority issued approximately $81 million in Revenue Bonds to advance refund approximately $82 million of outstanding 1988 Series A bonds. The net proceeds of approximately $80 million (after payment of approximately $1 million in underwriting fees, insurance, and other issuance costs) and a premium of approximately $246,000 were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with the State Treasurer to provide for all future debt service payments on the refunded bonds. As a result, the 1988 Series A bonds are considered to be defeased and the liability for those bonds has been removed from the financial statements, as well as the related investments. The authority advance refunded the 1988 Series A bonds to reduce its total debt service payments over the next 10 years by approximately $10 million and to obtain an economic gain (the difference between the present values of the debt service payments on the old and new debt) of approximately $3 million.

Prior Year Defeasances: In prior years, the Department of Water Resources, the State Public Works Board, the California Transportation Commission, the California State University, and the Los Angeles State Building Authority defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust account to provide for all future debt service payments on the old bonds. Accordingly, the assets and liabilities for the defeased bonds are not included in the financial statements. On June 30, 1996, $1.7 billion of revenue bonds outstanding are considered defeased.

NOTE 16. MAJOR TAX REVENUES

Tax revenues for the year ended June 30, 1996, are presented in Table 16.

Table 16

Schedule of Major Tax Revenues
June 30, 1996 (Amounts in thousands)

	General Fund	Special Revenue Funds	Expendable Trust Funds
Personal income	$ 20,845,440	$ —	$ —
Sales and use	15,792,629	3,463,261	—
Bank and corporation	5,741,239	—	—
Unemployment insurance	—	—	3,484,610
Disability insurance	—	—	1,908,781
Insurance	1,138,842	—	—
Inheritance, estate, and gift	670,475	—	—
Cigarette and tobacco	171,221	455,575	—
Other	299,116	228,366	55,262
Total	**$ 44,658,962**	**$ 4,147,202**	**$ 5,448,653**

NOTE 17. FUND EQUITY

A. Expendable Trust Funds

The fund balance Reserved for Other Specific Purposes of $5.6 billion represents assets of the Unemployment Fund and other expendable trust funds that are not available for future appropriations other than those for which the funds were established.

B. Fund Deficits

The following funds had deficits at June 30, 1996, as shown in Table 17.

Table 17

Schedule of Fund Deficits
June 30, 1996 (Amounts in thousands)

	Capital Projects Funds	Internal Service Funds
Higher Education Construction	$ 11,866	$ —
Building Authorities	3,378	—
Architecture Revolving	—	8,571
Water Resources Revolving	—	17,665
Total	**$ 15,244**	**$ 26,236**

C. Changes to Contributed Capital

The changes in the State's contributed capital accounts for its proprietary funds are shown in Table 18.

Table 18

Schedule of Changes in Contributed Capital
(Amounts in thousands)

Sources	Enterprise	Internal Service	Total
Balance, July 1, 1995	$ 214,792	$ 110,271	$ 325,063
Government contributions	1,455	1,968	3,423
Balance, June 30, 1996	**$ 216,247**	**$ 112,239**	**$ 328,486**

NOTE 18. RISK MANAGEMENT

The State has elected, with a few exceptions, to be self-insured against loss or liability. Primarily, the exceptions are when a bond resolution or a contract requires the State to purchase commercial insurance for coverage against property loss or liability. There have been no significant reductions in insurance coverage from the prior year. In addition, there has been no insurance settlement in the last three years that has exceeded insurance coverage. The State generally does not maintain reserves. Losses are covered by appropriations from each fund responsible for payment in the year in which the payment occurs. All claim payments are on a pay-as-you-go basis. The potential amount of loss arising from risks other than workers' compensation benefits are not considered material in relation to the State's financial position.

Workers' compensation benefits for self-insured agencies are initially paid by the State Compensation Insurance Fund. The State Compensation Insurance Fund estimated the liability for future workers' compensation claims against the State's self-insured agencies to be approximately $733 million as of June 30, 1996. The liability represents the estimated total cost of all open and known disability claims as of June 30, 1996. The estimates are based on established claims criteria such as age of the injured, occupation, and type of injury. It is included in the accompanying financial statements. Of the total, $89 million is included in the General Fund, $58 million in the special revenue fund type, $20 million in the proprietary fund types and $566 million in the General Long-Term Obligations Account Group. Changes in the claims liabilities during year ended June 30, 1996 are shown in Table 19.

Table 19

Schedule of Changes in the Liability for Workers' Compensation Claims
Year Ended June 30, 1996 (Amounts in thousands)

	1996	1995
Unpaid claims, beginning	$ 753,000	$ 773,000
Incurred claims	170,000	161,000
Claim payments	(190,000)	(181,000)
Unpaid claims, ending	**$ 733,000**	**$ 753,000**

NOTE 19. SEGMENT INFORMATION

Selected financial information by enterprise fund activity for major segments is shown in Table 20. The primary sources of enterprise fund revenues are as follows:

Housing Loan: Interest charged on contracts of sale of properties to California veterans and to California National Guard members; loan origination fees; and interest on investments.
Water Resources: Charges to local water districts, sale of excess power to public utilities, and interest earned on investments.
School Building Aid: Interest charged on loans to school districts for acquisition, construction, or rehabilitation of classroom facilities; and income from the rental of portable classrooms to school districts.
Toll Facilities: Toll fees and interest earned on investments.
California State University: Charges to students for housing and parking; student fees for campus unions, health centers, and self-supporting educational programs; and interest earned on investments.
Leasing of Public Assets: Rental charges from the lease of public assets and interest earned on investments.
State Lottery: Sale of lottery tickets.
Harbors and Watercraft: Fees related to boating activities.
Health Facilities Construction Loan Insurance: Construction project fees and income from operations or proceeds of sales of property acquired by default of borrowers.
Other Enterprise: Canteen revenues and processing fees charged by various other departments.

Table 20

Schedule of Enterprise Fund Activity by Separate Major Segments
As of and for the Year Ended June 30, 1996 (Amounts in thousands)

	Housing Loan	Water Resources	School Building Aid	Toll Facilities	California State University	Leasing of Public Assets	State Lottery	Harbors and Watercraft	Health Facilities Construction Loan Insurance	Other Enterprise
Operating revenue............	$ 292,277	$ 480,720	$ 25,676	$ 141,227	$ 240,689	$ 330,536	$ 2,292,325	$ 14,316	$ 16,936	$ 74,434
Depreciation......................	849	57,902	3,720	—	—	—	10,489	—	—	2,226
Amortization (recovery) of deferred charges	—	(35,490)	—	430	—	15,279	1,803	—	—	—
Operating income (loss).....	(8,092)	188,226	(19,672)	103,805	62,295	33,842	798,437	(21,414)	1,848	(1,929)
Operating transfers in........	11,144	—	—	—	23,824	1,066	—	28,548	—	16,247
Operating transfers out......	11,144	—	20,477	12,051	43,403	1,064	—	—	—	517
Net income (loss)..............	(2,619)	44,477	(18,847)	111,425	34,585	33,844	—	20,067	1,848	15,480
Grants received................	—	—	—	—	481	—	—	—	—	—
Grants provided................	—	—	—	13,276	—	—	—	—	—	—
Change in contributed capital										
Additions......................	—	—	—	—	718	—	—	—	—	737
Property, plant, and equipment										
Additions......................	—	269,393	—	39,980	36,186	—	29,816	40	—	2,315
Deductions....................	849	57,902	3,720	—	—	—	10,489	—	—	2,226
Net working capital...........	1,327,046	111,209	19,086	671,488	309,810	1,003,964	2,116,890	9,236	144,397	59,749
Total assets......................	3,786,727	4,957,953	348,988	1,702,739	1,056,304	5,703,359	2,754,760	281,652	145,642	148,548
Bonds and other long term liabilities........	3,406,670	3,388,450	18,000	63,010	342,820	5,431,442	2,186,956	—	182	61,897
Total equity.......................	289,929	1,092,370	268,231	1,622,318	639,883	98,907	—	206,059	144,223	53,569

NOTE 20. CONTINGENT LIABILITIES

Litigation: The State is a party to numerous legal proceedings, many of which normally occur in governmental operations. The following were accrued as a liability in the financial statements: legal proceedings that were decided against the State before June 30, 1996; legal proceedings that were in progress as of June 30, 1996, and that were settled or decided against the State as of November 27, 1996; and legal proceedings having a high probability of resulting in a decision against the State as of November 27, 1996, and for which amounts could be estimated. For governmental fund types and expendable trust funds, the portion of the liability that is expected to be paid within the next 12 months is recorded as a liability of the fund from which payment will be made; the remainder is shown as a liability of the General Long-Term Obligations Account Group. For other fund types, the entire liability is recorded in the fund involved. In addition, the State is involved in certain other legal proceedings that, if decided against the State, may require the State to make significant future expenditures or may impair future revenue sources. Because of the prospective nature of these proceedings, no provision for this potential liability has been made in the financial statements.

Following are the more significant lawsuits pending against the State:

The State is involved in a lawsuit, *Thomas Hayes v. Commission on State Mandates*, related to state-mandated costs. The action involves an appeal by the Director of Finance from a 1984 decision by the State Board of Control (now succeeded by the Commission on State Mandates (Commission)). The Board of Control decided in favor of local school districts' claims for reimbursement for special education programs for handicapped students. The case was then brought to the trial court by the State and later remanded to the Commission for redetermination. The Commission has since expanded the claim to include supplemental claims filed by seven other educational institutions; the issuance of a final consolidated decision is anticipated sometime in early 1997. To date, the Legislature has not appropriated funds. The liability to the State, if all potentially eligible school districts pursue timely claims, has been estimated by the Department of Finance at more than $1 billion.

The State is involved in a lawsuit related to contamination at the Stringfellow toxic waste site. In *United States, People of the State of California v. J. B. Stringfellow, Jr., et al.*, the State is seeking recovery for past costs of cleanup of the site, a declaration that the defendants are jointly and severally liable for future costs, and an injunction ordering completion of the cleanup. However, the defendants have filed a counterclaim against the State for alleged negligent acts. Because the State is the present owner of the site, the State may be found liable. Present estimates of the cleanup range from $200 million to $800 million.

The State is a defendant in a coordinated action involving 3,000 plaintiffs seeking recovery for damages caused by the Yuba River flood of February 1986. The trial court has found liability in inverse condemnation and awarded damages of $500,000 to a sample of plaintiffs. The State's potential liability to the remaining plaintiffs ranges from $800 million to $1.5 billion. An appeal has been filed.

The State is a defendant in *California State Employees Association v. Wilson*, where the petitioners are challenging several budget appropriations in the 1994 and 1995 Budget Acts. The appropriations mandate the transfer of funds from the State Highway Account to the General Fund to reimburse the General Fund for debt service costs on two rail bond measures. The petitioners contend that the transfers violate the bond acts themselves and are requesting the monies be returned. The loss to the State's General Fund could be up to $227 million.

In a similar case, *Professional Engineers in California Government v. Wilson*, the petitioners are challenging several appropriations in the 1993, 1994, and 1995 Budget Acts. The appropriations mandate the transfer of approximately $262 million from the State Highway Account and $113 million from the Motor Vehicle Account to the General Fund and appropriate approximately $6 million from the State Highway Account to fund a highway-grade crossing program administered by the Public Utilities Commission. Petitioners contend that the transfers violate several constitutional provisions and request that the moneys be returned to the State Highway Account and Motor Vehicle Account.

The State is a defendant in *Just Say No To Tobacco Dough Campaign v. State of California*, where the petitioners challenge the appropriation of approximately $166 million of Proposition 99 funds in the Cigarette and Tobacco Products Surtax Fund for years ended June 30, 1990, through June 30, 1995 for programs which were allegedly not health education or tobacco-related disease research. If the State loses, the General Fund and funds from other sources would be used to reimburse the Cigarette and Tobacco Products Surtax Fund for approximately $166 million.

The State is a defendant in the case of *Kurt Hathaway, et al. v. Wilson, et al.*, where the plaintiffs are challenging the legality of various budget action transfers and appropriations from particular special funds for years ended June 30, 1995, and June 30, 1996. The plaintiffs allege that the transfers and appropriations are contrary to the substantive law establishing the funds and providing for interest accruals to the fund, violate the single subject requirement of the State Constitution, and is an invalid "special law." Plaintiffs seek to have monies totaling approximately $335 million returned to the special funds.

The State is a defendant in two related cases, *Beno vs. Sullivan* (Beno) and *Welch vs. Anderson* (Welch), concerning reductions in

Aid to Families with Dependent Children (AFDC) grant payments. In the Beno case, plaintiffs seek to invalidate AFDC grant reductions and in the Welch case, plaintiffs contend that AFDC grant reductions are not authorized by state law. The Beno case concerns the total grant reductions while the Welch case concerns the period of time the State did not have a waiver for those reductions. The State's potential liability for retroactive AFDC grant reductions is estimated at $831 million if the plaintiffs are awarded the full amount in both cases.

The State was a defendant in *California Teachers Association v. Russell S. Gould, et al.*, where the petitioners challenged a recharacterization of $1.1 billion of appropriations for the 1991-92 fiscal year and $190 million in the 1992-93 fiscal year as emergency loans rather than Proposition 98 funds. The petitioners were seeking a declaration that all appropriated funds are Proposition 98 funds and, therefore, must be included in the minimum funding guarantee for schools. The trial court ruled that the appropriations are not Proposition 98 funds and should not be included in the minimum funding calculation in future years.

The petitioners also challenged the Legislature's appropriation of $973 million to schools in the 1992-93 fiscal year and $787 million to schools in the 1993-94 fiscal year. The appropriations, which the Legislature called "emergency loans," were in excess of the Proposition 98 guarantee of minimum funding; the Legislature explicitly excluded those excess funds from being included in the future Proposition 98 minimum funding guarantee. The trial court found that amounts which the State appropriated to schools as loans in excess of the Proposition 98 guarantee were considered to be Proposition 98 funding and were required to be used to calculate the Proposition 98 requirement in future years. Moreover, the trial court found that the State cannot require schools to repay the appropriations which were characterized as loans. The parties have reached a settlement which provides that both the State and K-14 schools share in the repayment of prior years' emergency loans to schools. Of the total $1.8 billion in loans, the State will repay $935 million by forgiveness of the amount owed, while schools will repay $825 million. The $935 million forgiveness of the amount owed is included as 1995-96 fiscal year expenditures of the General Fund. The State's share of the repayment will be reflected as an appropriation above the current Proposition 98 base calculation. The schools' share of the repayment will count as appropriations that count toward satisfying the Proposition 98 guarantee, or from "below" the current base.

Federal Audit Exceptions: The State receives substantial funding from the federal government in the form of grants and contracts. The State is entitled to these resources only if it complies with the terms and conditions of the grants and contracts and with the applicable federal laws and regulations; the State may spend these resources only for eligible purposes. If audits disclose exceptions, the State may incur a liability to the federal government.

NOTE 21. DEFERRED COMPENSATION PLANS

The State administers a long-term tax deferred savings program designed to supplement the retirement income of state employees. This program is comprised of a deferred compensation plan (457), in accordance with Section 457 of the Internal Revenue Code, and a thrift plan (401(k)), in accordance with Section 401(k) of the Internal Revenue Code. In addition, this program includes a mandatory retirement plan for employees covered by neither the Public Employees Retirement System (PERS) nor Social Security called the Part-Time, Seasonal and Temporary Plan (PST).

The 457 and 401(k) plans are optional plans for eligible employees. Employees under each plan defer receiving portions of their salaries, thereby deferring taxation on these portions, until they leave State service or face a serious financial emergency. Participants of the 457 and 401(k) plans direct the State to invest the deferred amounts among various investment options. The State makes no contribution to any of these plans and the cost of the program is paid through administrative fees by the program participants. The assets in the 457 plan remain the property of the employer until paid or made available to participants, subject only to the claims of the State's general creditors. The assets of the 401(k) plan are held for the participants in a trust.

The PST plan is a mandatory plan for employees who are not members of the State's retirement system and who are not covered by social security. The State invests PST plan participants' deferred amounts into an investment option of the State's choosing. The State makes no contribution to the PST plan, but the administrative costs to run the PST program are paid by the State.

The State of California has no liability for losses under the plans but does have the responsibility to administer the plans in good faith. As of June 30, 1996, the market value of the three plans was approximately $2.5 billion for the 457 plan, $293 million for the 401(k) plan, and $42 million for the PST plan. The plans are accounted for as agency funds.

NOTE 22. PENSION TRUSTS

The State has two retirement systems: the California Public Employees' Retirement System (CalPERS) and the State Teachers' Retirement System (STRS).

CalPERS administers four defined benefit retirement plans: the Public Employees' Retirement Fund (PERF), the Judges' Retirement Fund (JRF), the Judges' Retirement Fund II (JRF II), and the Legislators' Retirement Fund (LRF). CalPERS also administers one defined benefit award plan, the Volunteer Firefighters' Length of

Service Award Fund (VFF). The financial report of CalPERS may be obtained by writing to the California Public Employees' Retirement System, Central Supply, P.O. Box 942715, Sacramento, California 94229-2715. STRS administers one defined benefit contributory retirement plan. The financial report of STRS may be obtained from the State Teachers' Retirement System, Accounting Division, 7667 Folsom Blvd., 2nd Floor, Sacramento, California 95826. The other pension funds are included in the fiduciary fund type.

Standardized Measure of Pension Benefit Obligation: Additional information for the State of California is presented during this transition period prior to the adoption of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers.* This additional information includes the disclosure of the pension benefit obligation, as described below.

In order for users of governmental financial reports to assess the progress made in accumulating sufficient assets to pay benefits when due and to make comparisons among employers, GASB Statement No. 5 requires disclosure of a standardized measure called the pension benefit obligation (PBO). This measure is independent of the actuarial funding method used to determine employer contributions. The PBO is the actuarial present value of credited projected pension benefits (including projected future salary increases) estimated to be payable in the future as a result of employees' service to date.

The PBO for CalPERS was computed as part of an actuarial valuation performed as of June 30, 1995, which is the latest available valuation. The STRS PBO for June 30, 1996, was estimated based on the actuarial valuation as of June 30, 1995.

Summary of Significant Accounting Policies - CalPERS:

Basis of Accounting: CalPERS uses the accrual basis of accounting. Contributions are recorded when due. Investment income is recognized when earned, and expenditures are recorded when incurred.

Investments: CalPERS investments are presented at fair value. Statutes authorize CalPERS to invest in stocks, bonds, mortgages, real estate, and other investments. CalPERS maintains certain deposits, cash equivalents, and other investments with financial institutions.

The fair value of investments is based on published market prices and quotations from major investment brokers at current exchange rates, as available. Many factors are considered in arriving at that fair value. In general, however, corporate bonds are valued based on yields currently available on comparable securities of issuers with similar credit ratings. Investments in certain restricted common stocks are valued at the quoted market price of the issuer's unrestricted common stock, less an appropriate discount.

Mortgages have been valued on the basis of their future principal and interest payments discounted at prevailing interest rates for similar instruments. The fair value of real estate investments, principally rental property subject to long-term net leases, has been estimated based on independent appraisals. Short-term investments are reported at market value, when published market prices and quotations are available, or at cost plus accrued interest, which approximates market value. For investments where no readily ascertainable market value exists, management, in consultation with their investment advisors, have determined the fair values for the individual investments.

Derivatives: In accordance with statutes authorizing CalPERS investments, CalPERS, through its outside investment managers, holds investments in futures and options and enters into forward foreign currency exchange contracts. Futures and options of approximately $20 million are held for investment purposes at June 30, 1996. Forward foreign currency exchange contracts are used primarily to hedge against changes in foreign equities, primarily denominated in European and Asian currencies. At June 30, 1996, CalPERS has approximately $93 million net exposure to loss from forward foreign currency exchange transactions related to the $20.2 billion international debt and equity portfolios.

CalPERS could be exposed to risk if the counterparties to the contracts are unable to meet the terms of the contracts. CalPERS anticipates that the counterparties will be able to satisfy their obligations under the contracts. CalPERS' investment managers seek to control this risk through counterparty credit evaluations and approvals, counterparty credit limits and exposure monitoring procedures.

Related Party Investments: CalPERS avoids related party investments as part of its written investment policy and no known related party investments exist in the fund.

Actuarially Determined Funding Policy: CalPERS uses a modification of the Entry Age Normal Actuarial Cost Method, which is a projected benefit cost method for PERF, LRF, JRF, and JRF II. That is, it takes into account those benefits that are expected to be earned in the future as well as those already accrued.

According to this cost method, the normal cost for an employee PBO is the level amount which would fund the projected benefit if it were paid annually from date of employment until retirement. CalPERS uses a modification of the Entry Age Normal Cost Method in which the employer's total normal cost is expressed as a level percentage of payroll. CalPERS also uses the level percentage of payroll method to amortize any unfunded actuarial liabilities. The amortization period of the unfunded actuarial liability is no longer than 17 years for school employees, 30 years for contracting public agencies, 35 years for the State of California, 40 years for LRF, and 6.5 years for

JRF. The VFF used the Unit Credit Actuarial Method as the basis for its valuation.

A. Public Employees' Retirement Fund

1. Fund Information

Plan Description: CalPERS administers the PERF, an agent multiple-employer retirement plan. Employers participating in the PERF include the State of California, 61 school employers, and 1,273 public agencies.

Unfunded Pension Benefit Obligation: The assets in excess of the PBO of PERF was $3.1 billion at June 30, 1995. This is a result of the difference between the actuarial value of assets of $83.8 billion and the PBO of $80.7 billion. Contributions are actuarially determined.

2. State of California Information

Employers' Information - Contributions and Reserves

Plan Description: The State of California contributes to the Public Employees' Retirement Fund (PERF), an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent of the State of California and the other member agencies. The payroll for state employees covered by the PERF in the year ended June 30, 1996, was approximately $8.9 billion. The total payroll for state employees in the year ended June 30, 1996 was approximately $9.6 billion, not including the University of California.

All employees who work on a half-time basis or more are eligible to participate in the PERF. The PERF administers several different retirement plans, each providing a monthly allowance based on age, years of credited service, and highest average compensation over 12 consecutive months. Vesting occurs after five or ten years, depending on the plan. All plans provide death and disability benefits. The benefit provisions for the State are established by statute.

Costs of administering the Plan are financed through the contributions and investment earnings of the Plan.

Employee and Employer Contribution Obligations: State employees, with the exception of employees in the second-tier plan, are required to contribute to the fund. The contribution rates, based on the actuarial valuation, vary between plans. The required contribution rates of active plan members is based on a percentage of salary over a base compensation amount of $238 to $863 monthly. With the exception of employees in the second-tier plan, state employees required contributions vary from 5% to 8% of their salary over their base compensation amount.

For the year ended June 30, 1996, the required employer contribution rates are shown in Table 21.

Table 21

Schedule of Required Contribution Rates for the State by Member Category
June 30, 1996

	Normal Cost	Unfunded Liability	Total Rate
Miscellaneous members:			
First tier	9.415 %	2.935 %	12.350 %
Second tier	6.588	1.738	8.326
Industrial	9.824	(0.843)	8.981
California Highway Patrol	14.287	0.491	14.778
Police officers and Firefighters	14.631	(0.281)	14.350
Other safety members	14.107	0.121	14.228

Funding Status and Progress: The unfunded PBO for the State of California, as adjusted to fair value, based on the standardized measure of the PBO, which uses the Projected Unit Credit Actuarial Method, as appears in the actuarial valuation, was $1.5 billion at June 30, 1995, as shown in Table 22.

Table 22

Schedule of the Unfunded Pension Benefit Obligation for the State of California
June 30, 1995 (Amounts in millions)

Pension Benefit Obligation:	
Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	$ 18,478
Current employees:	
Accumulated employee contributions, including: allocated investment earnings	5,108
Employer-financed vested	12,366
Employer-financed nonvested	420
Total pension benefit obligation	**36,372**
Net assets allocated to fund the pension benefit obligation, at smoothed market value	34,889
Unfunded Pension Benefit Obligation	**$ 1,483**

Following are the significant actuarial assumptions used to calculate the above PBO and the actuarially determined contributions presented in the next paragraph. The actuarially assumed investment return is 8.5% per annum. The salary scale used assumes salary increases that vary by length of service. The total increase in any future year includes an assumed 4.5% inflation rate, a 0.0% across the board increase and merit increases that vary by length of service. There was no change in the PBO as of June 30, 1995, as a result of changes in benefit provisions or actuarial methods and assumptions.

Contributions Actuarially Determined and Contributions Made: The total net retirement contributions for the year ended June 30, 1996, amounted to $1.5 billion, of which $1.1 billion or 12% of covered payroll came from the employers and $0.4 billion or 4% of covered payroll came from the members. The actuarially determined required employer contributions will be reduced by approximately $50 million due to the usage of surplus credits resulting from actuarial valuations. Contributions were made in accordance with actuarially determined requirements. Employer normal cost is 10.36% of covered payroll and amortization of unfunded liabilities is 1.82% of covered payroll. The State of California General Fund employer contribution for the year ended June 30, 1996, is $587 million; this amount is not required to be paid until July 1, 1997.

Trend Information: Table 23 shows trend information for the PERF as of and for the years ended June 30, 1993, 1994, and 1995. Additional trend information is available in the separately issued financial report of CalPERS for the year ended June 30, 1996.

Table 23

Schedule of Trend Information for the Public Employees' Retirement Fund
As of and for the Years Ended June 30 (Amounts in millions)

	1995	1994	1993
Net assets available for benefits	$ 34,889	$ 32,550	$ 27,477
Pension benefit obligation	36,372	33,552	31,560
Unfunded pension benefit obligation	1,483	1,002	4,083
Annual covered payroll	$ 8,618	$ 8,026	$ 7,487
Employer Contributions	1,001	852	806
Percent funded	95.92 %	97.01 %	87.06 %
Unfunded pension benefit obligation as a percentage of covered payroll	17.21 %	12.48 %	54.53 %
Employer contributions as a percentage of covered payroll	11.62 %	10.62 %	10.77 %

B. Judges' Retirement Funds

Plan Description: CalPERS administers the Judges Retirement Fund (JRF) and the Judges Retirement Fund II (JRF II), which are agent multiple employer defined benefit retirement plans. The membership of JRF includes justices of the Supreme Court and courts of appeal, and judges of superior courts and municipal courts appointed or elected prior to November 9, 1994. The membership of JRF II includes justices of the same courts who were appointed or elected subsequent to November 9, 1994. There are 59 employers participating in the JRF and 28 employers participating in the JRF II. The payroll for employees covered by JRF and JRF II in 1995 was approximately $154 million and $8 million respectively. The State of California pays the employer contributions for all employees covered by JRF and JRF II.

The required contribution rates of active plan members is based on a percentage of salary over a base compensation amount. For the year ended June 30, 1996, the required contribution rates for JRF and JRF II are 8.0%.

The funding to meet benefit payment requirements of JRF, other than member contributions, is currently provided from the following sources: employer contributions, which require 8.0% of applicable member compensation; filing fees, which require varying amounts, depending on fee rate and number of filings; investments, which earn the current yield on short-term investments; and the State of California balancing contributions, as required by the Judges' Retirement Law, which are equal to an amount at least equal to the estimated benefits payable during the ensuing fiscal year less the sum of (1) the estimated member contributions during the ensuing fiscal year, and (2) net assets available for benefits at the beginning of the fiscal year.

For the year ended June 30, 1996, the employer contribution rate for the JRF II was 18.8% of applicable member compensation. Costs of administering the plan are financed through the contributions and investment earnings of the plan.

All justices and judges are required to participate in the JRF and JRF II. JRF and JRF II provide a monthly allowance based on age, years of credited service, and highest average compensation over an established period of time of one year. Vesting occurs after five years. Both plans provide death and disability benefits. The benefits for the JRF are established by the Judges' Retirement Law. The benefits for the JRF II are established by the Judges' Retirement System II Law.

Funding Status and Progress: The unfunded PBO for the JRF, based on the standardized measure, which uses the Projected Unit Credit Actuarial Method as appears in the actuarial valuation at June 30, 1995 was $1.3 billion, as shown in Table 24. An actuarial valuation has not been performed for JRF II using the standardized measure of PBO.

Table 24

Schedule of the Unfunded Pension Benefit Obligation for the Judges' Retirement Fund
June 30, 1995 (Amounts in millions)

Pension Benefit Obligation:		
Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	$	785
Current employees:		
Accumulated employee contributions, including allocated investment earnings		97
Employer-financed vested		302
Employer-financed nonvested		129
Total pension benefit obligation		**1,313**
Net assets available for benefits at cost		9
Unfunded Pension Benefit Obligation	**$**	**1,304**

Following are the significant actuarial assumptions used to calculate the above PBO and the actuarially determined contributions presented in the next section. The actuarially assumed investment return is 8.5% per annum. The salary scale used assumes salary increases of 4.75% per annum. The total increase in any future year includes an assumed 4.5% inflation rate. There was no change in the PBO as of June 30, 1995, as a result of changes in benefit provisions or actuarial methods and assumptions.

Actuarial valuations for the JRF II are required to be carried out annually. The legislated State contribution rate will be adjusted periodically as part of the annual Budget Act in order to maintain or restore the actuarial soundness of the fund. The initial actuarial valuation was performed as of June 30, 1995. As of June 30, 1995, based on the actuarially determined funding policy, the fund was overfunded by approximately $168,000. Also, for the year ended June 30, 1995, the total net contributions to the fund were $239,000, which is greater than the actuarially determined required contributions.

Contributions Actuarially Determined and Contributions Made: The contribution requirements of the JRF are not actuarially determined. Contribution requirements are pursuant to state statute. An actuarial valuation of JRF's assets and liabilities is made at least every two years. The last valuation was performed as of June 30, 1995. Such valuations are used by CalPERS to make recommendations for financing the JRF. For JRF the normal cost is 15.89% of covered payroll. For the year ended June 30, 1995, the actual contributions made by the State to JRF were approximately $50 million or 31% of the covered payroll, which is materially less than the actuarially determined contributions of approximately $251 million, which is necessary to be fully funded by January 1, 2002. For the year ended June 30, 1995, actual contributions made by employees were $12 million or 8% of covered payroll.

Contributions are actuarially determined for JRF II. The actuarial accrued liability was determined as part of an actuarial valuation of the retirement plan performed as of June 30, 1995, which is the latest available valuation. As of June 30, 1995, the statutory contribution rate for JRF II was 18.8% of covered payroll and there was no unfunded liability to amortize. The total net retirement contributions for JRF II for the year ended June 30 1996, amounted to $2.1 million of which $1.5 million or 18.8% of covered payroll came from employers and $0.6 million or 8% of covered payroll came from members.

Trend Information: Table 25 shows trend information for the JRF as of and for the years ended 1993, 1994, and 1995. Table 25 reports the combined annual covered payroll of both JRF and JRF II, because the actuaries assume that the combined total will be the basis for the amortization of the unfunded past service liability. Additional trend information is available in the separately issued financial report of CalPERS for the year ended June 30, 1996.

Table 25

Schedule of Trend Information for the Judges' Retirement Fund
As of and for the Years Ended June 30 (Amounts in millions)

	1995	1994	1993
Net assets available for benefits	$ 9	$ 15	$ 24
Pension benefit obligation	1,313	1,200	1,315
Unfunded pension benefit obligation	1,304	1,185	1,291
Annual covered payroll	$ 162	$ 161	$ 153
Employer and State General Fund contributions	50	42	63
Percent funded	0.69 %	1.25 %	1.83 %
Unfunded pension benefit obligation as a percentage of covered payroll	804.94 %	736.02 %	843.79 %
Employer contributions as a percentage of covered payroll	30.86 %	26.09 %	41.18 %

C. Legislators' Retirement Fund

Plan Description: CalPERS administers the Legislators' Retirement Fund (LRF), which is an agent single-employer defined benefit retirement plan. The membership of LRF includes state legislators, constitutional officers and legislative statutory officers. The payroll for employees covered by LRF in 1995 was approximately $4.6 million.

The required contribution rates of active plan members is based on a percentage of salary over a base compensation amount. For the year ended June 30, 1996, the required contribution rates for LRF was 4% of pay for members elected before March 4, 1972, and 8% of pay for members elected thereafter.

The required State contribution rate is 18.81% of applicable member compensation, for the year ended June 30, 1996. Costs of administering the plan are financed through the contributions and investment earnings of the plan.

All members are eligible to participate in the LRF. The LRF provides a monthly allowance based on age, years of credited service, and the highest compensation while in office. Vesting occurs after four years. The plan provides death and disability benefits. The benefits for the LRF are established by the Legislators' Retirement Law.

Funding Status and Progress: The unfunded PBO for the LRF based on the standardized measure of the PBO, which uses the Projected Unit Credit Actuarial Method as appears in the actuarial valuation at June 30, 1995, was $10 million, as shown in Table 26.

Table 26

Schedule of the Unfunded Pension Benefit Obligation for the Legislators' Retirement Fund
June 30, 1995 (Amounts in thousands)

Pension Benefit Obligation:	
Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	$ 73,472
Current employees:	
Employee contributions	6,506
Employer-financed vested	15,409
Employer-financed nonvested	4,142
Total pension benefit obligation	**99,529**
Net assets available for benefits at cost (market value was $93,612)	89,156
Unfunded Pension Benefit Obligation	**$ 10,373**

Following are the significant actuarial assumptions used to calculate the above PBO and the actuarially determined contributions presented in the following section. The actuarially assumed investment return is 7.75% per annum. The salary scale used assumes salary increases of 4.5% per annum. The total increase in any future year includes an assumed 4.5% inflation rate. There was no change in the PBO as of June 30, 1995, as a result of changes in benefit provisions or actuarial methods and assumptions.

Contribution Required and Contribution Made: The contribution requirements of the LRF are based on actuarially determined rates. An actuarial valuation of LRF's assets and liabilities is made at least every two years. The last valuation was performed as of June 30, 1995. As of June 30, 1995, the State funding rate was 18.81% of covered payroll. The amortization period of the unfunded actuarial liability is 40 years for the LRF. For the LRF, the normal cost is 26.23% of covered payroll and the amortization of unfunded liabilities is 12.09% of covered payroll, for a combined rate of

38.32% of covered payroll. For the year ended June 30, 1995, the actual state contributions made to the LRF were approximately $576,000 or 12.5% of covered payroll, which is materially less than the actuarially determined required contributions of approximately $1.9 million. For the year ended June 30, 1995, the actual contributions made by employees were approximately $419,000 or 9% of covered payroll.

Trend Information: Table 27 shows trend information related to the LRF as of and for the years ended June 30, 1993, 1994, and 1995. Additional trend information is available in the separately issued financial report of CalPERS for the year ended June 30, 1996.

Table 27

Schedule of Trend Information for the Legislators' Retirement Fund
As of and for the Years Ended June 30 (Amounts in thousands)

	1995	1994	1993
Net assets available for benefits	$ 89,156	$ 82,417	$ 72,695
Pension benefit obligation	99,529	97,248	95,104
Unfunded pension benefit obligation	10,373	14,831	22,409
Annual covered payroll	$ 4,630	$ 5,503	$ 5,788
State contributions	576	596	698
Percent funded	89.58 %	84.75 %	76.44 %
Unfunded pension benefit obligation as a percentage of covered payroll	224.04 %	269.51 %	387.16 %
Employer contributions as a percentage of covered payroll	12.44 %	10.83 %	12.06 %

D. Volunteer Firefighters' Length of Service Award Fund

Plan Description: CalPERS administers the Volunteer Firefighters' Length of Service Award Fund (VFF), an agent multiple-employer public employee defined benefit award plan. It currently has 30 participating fire departments.

Net Assets Available in Excess of Total Award Benefit Obligation: The VFF did not have an unfunded benefit obligation at June 30, 1995. The net assets available in excess of total award benefit obligation for the VFF based on the standardized measure, which uses the Projected Unit Credit Actuarial Method as appears in the actuarial valuation at June 30, 1995, was $116,000. This is the result of the difference between the net assets available for benefits of $931,000 and the total award benefit obligation of $815,000. The total award benefit obligation was determined as part of an actuarial valuation of the retirement plan performed as of June 30, 1995, which is the latest available valuation.

E. State Teachers' Retirement System

Plan Description: The State Teachers' Retirement System (STRS) is the administrator of the Teachers' Retirement Fund (TRF), a cost-sharing multiple-employer defined benefit retirement plan that provides pension benefits to teachers and certain other employees of

the California public school system. At June 30, 1996, the TRF had approximately 1,095 contributing employers, including school districts, community college districts, and county offices of education. The State is a nonemployer contributor to the TRF. The payroll for employees covered by TRF in 1996 was approximately $13.3 billion.

For the year ended June 30, 1996, the required contribution rate for TRF covered members is 8% of applicable member earnings, and the required employer contribution rate is 8.25% of applicable member compensation.

Beginning July 1, 1991, full funding of TRF is provided by statute. The State's required annual contribution to the TRF is 4.3% of the previous calendar year's teacher payroll. Subsequent to achieving a full funding, the State will contribute only the amount necessary to help fund the normal cost.

In 1989, TRF was required by statute to provide distributions to retirees, disabilitants, and beneficiaries in order to restore purchasing power to a minimum of 68.2% of the initial monthly allowance. The statute required TRF to advance funds for the distribution, until such time as the state contributions were sufficient to meet the purchasing power obligations. The State is required to repay the amount of advances by TRF with interest. Full repayment to TRF is anticipated to occur by 1997. Additionally, under certain provisions of the California Education Code, employers are required to make contributions of 0.415% of the payroll to the State. These contributions are appropriated by the State to TRF.

Membership in the pension plan is mandatory for all employees meeting the eligibility requirements. This plan provides defined retirement benefits based on members' final compensation, age, and years of service. In addition, the retirement program provides benefits to members upon disability, and to survivors upon the death of eligible members. After five years of credited California service, members become 100% vested in retirement benefits earned to date. The benefits for the plan are established by the State Teachers' Retirement Law.

Summary of Significant Accounting Policies:

Basis of Accounting: The accounting records of the STRS are maintained on the accrual basis of accounting. Member contributions are recognized in the period in which the contributions are due. Employer and State contributions are recognized when due and the employer or State has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the STRS retirement program.

Investments: The majority of the securities held in the investment

portfolio at June 30, 1996, are in the custody of or controlled by the State Street Bank and Trust Company, the master custodian of the STRS. The investments of the STRS consist of government, corporate, and international bonds, domestic and international equities, mutual finds, limited partnerships holdings, real estate, mortgages and other investments.

All investments are recorded at fair value. The fair values of investments are generally based on published market prices and quotations from major investment firms. In the case of debt securities acquired through private placements, fair value is computed by management based on market yields and average maturity dates of comparable quoted securities. Mortgages are valued on the basis of future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. Real estate equity investment fair values represent the most recent independent appraisals (conducted in the year ended June 30, 1996), updates to appraisals for the year ended June 30, 1995, of properties purchased prior to the year ended June 30, 1996, and current value estimates for properties purchased in the current year. Short-term investments are reported at cost, which approximates fair value.

Purchase and sales of debt securities, equity securities, and short-term investments are recorded on the trade date. Real estate equity transactions are recorded on the settlement date. Upon sale of investments, the difference between sales proceeds and historical cost is reflected in the statement of changes in fund balance.

Debt discounts are accredited to the bond maturity date and premiums are amortized to the earliest call date using an approximation of the interest method. Mortgage loan discounts are accreted over a 20-year period using the pay-down method.

Funding Status and Progress: The unfunded PBO for the TRF based on the standardized measure of the PBO, which uses the Projected Unit Credit Actuarial Method as appears in the estimate for June 30, 1996 based on the actuarial valuation at June 30, 1995, was $848 million, as shown in Table 28.

Table 28

Schedule of the Unfunded Pension Benefit Obligation for the Teacher's Retirement Fund
June 30, 1996 (Amounts in millions)

Pension Benefit Obligation:	
Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	$ 27,885
Current employees:	
Accumulated employee contributions, including allocated investment earnings	15,904
Employer-financed vested	19,894
Employer-financed nonvested	620
Total pension benefit obligation	**64,303**
Net assets available for benefits at fair value	63,455
Unfunded Pension Benefit Obligation	**$ 848**

Following are the significant actuarial assumptions used to calculate the above PBO. The fair market value of assets is the asset valuation method. The actuarially assumed investment return is 8.0% per annum. The salary scale used assumes salary increases of 5.5% per annum. The total increase in any future year includes an assumed 4.5% inflation rate. There was no change in the PBO as of June 30, 1996, as a result of changes in benefit provisions or actuarial methods and assumptions.

Contribution Required and Contribution Made: The contribution requirements of the TRF are not actuarially determined. The contribution requirements of the TRF are determined by statute. STRS employs an actuary to determine the adequacy of the funding of the plan, including the contribution levels. Based on the June 30, 1996 estimate, STRS independent actuaries determined that the estimated amortization period for the unfunded obligation computed using the cost method and the statutory contribution rates was 18 years from July 1, 1995. The annual required contribution by employers and the State for the year ended June 30, 1996, equaled the total amount contributed of $1.7 billion. The employers' annual required contribution equaled $1.2 billion, or 9.02% of covered payroll. The annual required contribution of the State was $530 million, or 3.98% of covered payroll. Employees contributed $1.1 billion, or 8.27% of covered payroll.

In addition to the $530 million, the State made contributions to the TRF of approximately $225 million for state mandates and to repay advances which provided for the restoration of the purchasing power of retirees, disabilitants, and beneficiaries.

An actuarial valuation of TRF's assets and liabilities is made at least every two years. The last valuation was performed as of June 30, 1995.

Trend Information: Table 29 shows trend information related to the

TRF as of and for the years ended 1994, 1995, and 1996. Additional trend information is available in the separately issued financial report of the STRS for the year ended June 30, 1996.

Table 29

Schedule of Trend Information for the Teachers' Retirement Fund
As of and for the Years Ended June 30 (Amounts in millions)

	1996	1995	1994
Net assets available for benefits	$ 63,455	$ 55,862	$ 47,631
Pension benefit obligation	64,303	59,986	57,049
Unfunded pension benefit obligation	848	4,124	9,418
Annual covered payroll	$ 13,300	$ 12,688	$ 12,251
State Contributions	755	733	759
Percent funded	98.68 %	93.13 %	83.49 %
Unfunded pension benefit obligation as a percentage of covered payroll	6.38 %	32.50 %	76.88 %
Employer contributions as a percentage of covered payroll	5.68 %	5.78 %	6.20 %

NOTE 23. POST-RETIREMENT HEALTH CARE BENEFITS

In addition to providing pension benefits, the State provides health care and dental benefits to annuitants of retirement systems to which the State contributes as an employer. To be eligible for these benefits, first-tier plan annuitants must retire from the State on or after attaining age 50 with at least five years of service, and second-tier plan annuitants must retire from the State on or after attaining age 55 with at least 10 years of service. In addition, annuitants must retire within 120 days of separation from state employment to be eligible to receive these benefits. As of June 30, 1996, approximately 93,000 annuitants were enrolled to receive health benefits and approximately 88,000 annuitants were enrolled to receive dental benefits. In accordance with the Government Code, the State generally pays 100% of the health insurance cost for annuitants plus 90% of the additional premium required for the enrollment of family members of annuitants. Although the State generally pays 100% of the dental insurance premium for annuitants, the Government Code does not specify the State's contribution toward dental insurance costs. The State recognizes the cost of providing health and dental insurance to annuitants on a pay-as-you-go basis. The cost of these benefits for the year ended June 30, 1996, was approximately $267 million. This amount decreased over the previous year due to a decrease in health insurance premiums.

NOTE 24. SUBSEQUENT EVENTS

The following information represents significant events that occurred subsequent to June 30, 1996, but prior to the date of the auditors' report.

On August 6, 1996, the State issued $3.0 billion in revenue anticipation notes that will mature on June 30, 1997. On November 7, 1996, the State issued $129 million in general obligation bonds and $371 million in general obligation refunding bonds, which were used to retire previously issued commercial paper. From July 1, 1996, to November 27, 1996, the State issued approximately $549 million in revenue bonds. Refunding bonds that are used to refinance existing debt accounted for approximately $499 million of the revenue bonds.

In the general election held on November 5, 1996, voters approved the sale of general obligation bonds with the passage of Propositions 204 and 206. Proposition 204, the "Safe, Clean, Reliable Water Supply Act," authorizes the issuance of $995 million in bonds. Proposition 206, the "Veterans' Bond Act of 1996," authorizes the issuance of $400 million in bonds.

NOTE 25. BUILDING AUTHORITIES

Building Authorities have been created through the use of Joint Exercise of Powers Agreements with various cities to finance the construction of state buildings. The building authorities are legally separate from the State of California. They meet the criteria of blended component units and are being reported as capital projects funds. As a result, the capital lease arrangements between the building authorities and the State of $320 million have been eliminated from the combined balance sheet. Instead, only the underlying fixed assets and the debt used to acquire them are reported in the appropriate account groups. Information on revenue bonds and certificates of participation are included in Note 15 and Note 10, respectively. Below is a list and description of these five building authorities:

The **Oakland State Building Authority** was created in 1994 by a Joint Exercise of Powers Agreement (JPA) between the State, acting through the director of the Department of General Services, and the Oakland Redevelopment Agency, for the purpose of financing the acquisition of land and to plan, design, and complete the construction of the Elihu M. Harris Building, as well as the leasing and financing required to accomplish these goals and administer these tasks. Copies of the financial statements may be obtained from the Oakland State Building Authority, 300 Lakeside Drive, Suite 130, Oakland, California 94612-3534.

The **East Bay State Building Authority** was created in 1989 by a JPA between the Department of General Services, the Department of

Transportation, and the City of Oakland for the purpose of financing the acquisition of land and the construction of a Department of Transportation state office building and parking facilities. Copies of the financial statements may be obtained from the East Bay State Building Authority, 111 Grand Avenue, Oakland, California 94612.

The **Los Angeles State Building Authority** was created in 1982 by a JPA between the State, acting through the director of the Department of General Services, and the Community Redevelopment Agency of the City of Los Angeles, for the purpose of financing the construction of a Los Angeles state office building. Copies of the financial statements may be obtained from the Los Angeles State Building Authority, 300 South Spring Street, Los Angeles, California 90013.

The **San Francisco State Building Authority** was created in 1982 by a JPA between the State, acting through the director of the Department of General Services, and the Redevelopment Agency of the City and County of San Francisco, for the purpose of financing the acquisition of land and the design and construction of a state building. Copies of the financial statements may be obtained from the San Francisco State Building Authority, San Francisco Redevelopment Agency, 770 Golden Gate Avenue, San Francisco, California 94102.

The **California State University and Colleges Headquarters Building Authority** was created in 1972 by a JPA between the City of Long Beach and the Trustees of the California State University and Colleges for the purpose of acquiring, constructing, maintaining, operating, leasing, and subleasing buildings for public education purposes. This includes a headquarters building for the Trustees. Copies of the financial statements may be obtained from the California State University and Colleges Headquarters Building Authority, 400 Golden Shore, Suite 102, Long Beach, California 90802-4275.

NOTE 26. DISCRETELY PRESENTED COMPONENT UNITS

A. University of California

The University of California (UC) was founded in 1868 as a public, State-supported institution. The California State Constitution grants the UC full powers of government, subject only to legislative control necessary to ensure the security of its funds and compliance with certain administrative requirements. The majority of the 26-member independent governing board—the Regents of the University of California—are appointed by the Governor and approved by the state Senate. In addition, various UC programs and capital outlay projects are funded through appropriations from the State's annual Budget Act. The UC is discretely presented in the State's general purpose financial statements. Copies of the UC's separately issued financial statements may be obtained from the University of California, Business and Finance, 21st Floor, 300 Lakeside Drive, Oakland, California 94612-3550.

Basis of Presentation: The financial statements of the UC have been prepared in conformity with GAAP, as outlined in Governmental Accounting Standards Board (GASB) Statement No. 15 and the American Institute of Certified Public Accountants College Guide Model, including all applicable GASB statements effective for the fiscal years through June 30, 1996.

The UC has entered into various capital lease agreements with the State Public Works Board. The State Public Works Board issues revenue bonds to finance the construction of these leased facilities. The UC records the liability and the related trustee investments and fixed assets in the financial statements. For the year ended June 30, 1996, the outstanding liability recorded as capital leases was $1.1 billion. This amount represents the total liability for the revenue bonds issued by the State Public Works Board to finance the construction of facilities for the UC.

Investments: Investments of all funds are stated at cost at the date of acquisition or, in the case of gifts, at quoted market value at the date of donation, with the exception of University of California Retirement System (UCRS) investments, which are stated at market value.

Substantially all of the UC's investments are held in funds associated with the Short Term Investment Pool (STIP), the General Endowment Pool (GEP), or UCRS. Investments authorized by the Regents for the STIP include fixed income securities with a maximum maturity of five years. Certain other investments which amount to $582 million are held by the trustees, but are not included in Table 30. In addition, the Regents have also authorized loans to faculty members under the University's Mortgage Origination Program with terms up to 30 years. Investments authorized for the GEP and UCRS include equities and fixed-income securities. The equity portion of the investment portfolio may include common stocks, venture capital partnerships, and emerging market funds. Where donor agreements place constraints on allowable investments, assets associated with endowment and similar funds are invested in accordance with the terms of the agreements.

All of the UC's fund groups participate in the STIP. Current funds to provide for the payroll, operating expenses, and construction expenditures of all campuses and teaching hospitals are invested in the STIP until expended. These investments had a carrying value of $3.5 billion and a market value of $3.6 billion as of June 30, 1996. In the prior year, the STIP investments were recorded in the cash and pooled investments account. For this year, STIP investments are included in the investment account.

The GEP is a balanced portfolio in which a large number of individual endowment funds participate in order to benefit from diversification and economies of scale. These investments had a

carrying value of $1.2 billion and a market value of $2.4 billion as of June 30, 1996. The net assets of the endowment and similar funds group are either invested in the GEP or are separately invested. The separately invested funds that cannot be pooled in the GEP due to investment restrictions or income requirements had a carrying value of $123 million, and a market value of $173 million, as of June 30, 1996.

UCRS contains funds associated with the UC's defined benefits and defined contribution plans.

All of the UC's categorized investments are insured, registered or held by the UC's custodial bank as an agent for the UC in the UC's name. There are three categories of credit risk and the investments of the UC are category 1 investments. For an explanation of the various categories of credit risk, see Note 3. Table 30 presents the investments as of June 30, 1996.

Table 30

Schedule of Carrying Value of Investments by Fund Group
June 30, 1996 (Amounts in thousands)

Investment Type	Current Funds	Loan Funds	Endowment and Similar Funds	Plant Funds	Total Cost	Market Value	UCRS Market Value
Corporate equity securities	$ 425	$ —	$ 760,979	$ —	$ 761,404	2,012,416	19,014,691
U.S. and state government Obligations	1,120,915	20,958	309,985	342,412	1,794,270	1,865,275	4,050,410
Corporate debt securities	864,121	16,156	290,357	263,968	1,434,602	1,438,719	1,660,547
Foreign government obligations	2,200	36	101,903	804	104,943	106,362	1,122,150
Foreign debt securities	—	—	69,663	—	69,663	75,886	603,047
Venture capital	—	—	41,001	—	41,001	47,938	365,624
Mutual funds	—	—	49,070	—	49,070	59,015	289,320
Mortgage loans	174,632	—	2,789	2,453	179,874	179,264	—
Insurance contracts	—	—	—	—	—	—	157,899
Other investments	3,087	—	8,523	7,240	18,850	18,850	—
Total Investments	**$ 2,165,380**	**$ 37,150**	**$ 1,634,270**	**$ 616,877**	**$ 4,453,677**	**$ 5,803,725**	**$ 27,263,688**

Cash deposits held in bank accounts at June 30, 1996, totaled approximately $52 million. Of this amount, $500,000 was insured by the FDIC.

Investments of $284 million included in the plant funds group are held by trustees and pledged for future payments of principal, interest, construction, and renewal and replacement in accordance with various indenture requirements and other long-term debt agreements.

The UC participates in a securities lending program as a means to augment income. At June 30, 1996, securities with a market value of approximately $5.0 billion were on loan to brokerage firms.

Due from Primary Government: The Due from Primary Government account balance reflects $111 million that is the short–term portion of the amount due to UC for administrative expenses from the General Fund and special revenue funds.

Revenue Bonds and Other Long-Term Debt: Revenue bonds are secured by the revenues of the individual projects as well as certain other UC revenues. Certificates of participation have been issued to finance buildings and equipment under lease agreements. The certificates are secured by buildings and equipment.

Table 31 shows the aggregate maturities of long-term debt for each of the years subsequent to June 30, 1996.

Table 31

Schedule of University of California Long-Term Obligations
(Amounts in thousands)

Year Ending June 30	Capital Leases	Revenue Bonds	Mortgages and Other Borrowings
1997	$ 126,897	$ 23,790	$ 231,988
1998	116,722	32,215	43,297
1999	111,889	40,390	35,155
2000	105,106	44,505	38,444
2001	98,873	47,850	30,081
Thereafter	1,549,310	1,678,000	477,777
	2,108,797	**$ 1,866,750**	**$ 856,742**
Less: Interest component of future minimum payments	928,204		
Present value of future minimum payments	**$ 1,180,593**		

The above liabilities do not include $1.1 billion of various defeased liabilities. Investments which have maturities and interest rates sufficient to fund retirement of these liabilities are being held in irrevocable trusts for the debt service payments. Neither the assets of the trusts nor the outstanding obligations are included in the balance sheet.

University of California Retirement System

Plan Description: Most UC career employees participate in the University of California Retirement System (UCRS). UCRS consists of a single-employer, defined benefit plan funded with UC and employee contributions; a defined benefit plan for UC employees who elected early retirement under the PERS Voluntary Early Retirement Incentive Program (PERS-VERIP); and two defined contribution plans with several investment portfolios funded with employee non-elective and elective contributions.

Funding Policy: UCRS is funded through UC and employee contributions. The annually determined rates for employer contributions as a percentage of payroll are based on recommendations of the consulting actuary and appropriations received from the State. Employer contributions were not required during the fiscal year ended June 30, 1996.

As of June 30, 1996, the total net assets available in excess of the PBO for covered employees is determined as shown in Table 32:

Table 32

Schedule of the Net Assets Available in Excess of the Pension Benefit Obligation
June 30, 1996 (Amounts in thousands)

Pension Benefit Obligation:	
Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	$ 7,514,400
Current employees:	
Employee contributions	755,600
Employer-funded vested	7,284,800
Employer-funded nonvested	522,700
Total pension benefit obligation	**16,077,500**
Actuarially determined assets available for benefits (market value of $23,742,000)	19,735,600
Net assets available in excess of the pension benefit obligation	**$ 3,658,100**

Post-retirement Health Care Benefits: In addition to pension benefits, the UC provides certain health plan benefits to retired employees. Employees who meet specific requirements may continue their medical and dental benefits into retirement and continue to receive UC contributions for those benefits. There are approximately 34,000 retirees currently eligible to receive such benefits. The cost of retiree medical and dental coverage is recognized when paid. The cost of providing medical and dental benefits for retirees and their families and survivors in the year ended June 30, 1996, was $91 million.

Commitments and Contingencies: As of June 30, 1996, the UC had authorized construction projects totaling $1.0 billion.

The UC is contingently liable in connection with claims and contracts, including those currently in litigation, arising in the normal course of its activities. UC management and General Counsel are of the opinion that the outcome of such matters will not have a material effect on the financial statements.

Rental expenditures for operating leases totaled $93 million during the year ended June 30, 1996. Minimum required payments for the year ended June 30, 1997, are $51 million. These payments will decrease in subsequent years.

Subsequent Event: In July 1996, Hospital Revenue Bonds totaling $346 million were issued for the purpose of financing and refinancing the costs of the acquisition, construction and equipping of certain health care and related facilities at the University of California, Davis Medical Center. Approximately $112 million of the proceeds were applied to repay interim financing incurred prior to the issuance of the bonds. The bonds have annual principal and semiannual interest payments, an average interest rate of six percent, serial maturities, term bonds with sinking fund requirements and optional redemption provisions.

B. Special Purpose Authorities

The **State Compensation Insurance Fund** (SCIF) is a self-supporting enterprise created to offer insurance protection to employers at the lowest possible cost. It operates in competition with other insurance carriers to provide services to the State, county, city, school district, or other public corporations. The SCIF is legally separate from the State. It is a component unit of the State because the State appoints all five voting members of the SCIF's governing board and has the authority to approve or modify the budget for support of the SCIF to run the workers' compensation benefit program. Copies of the SCIF's financial statements may be obtained from the State Compensation Insurance Fund, 1275 Market Street, San Francisco, California 94103.

The **California Housing Finance Agency** (CHFA) was created for the purpose of meeting the housing needs of persons and families of low and moderate income by providing a low-cost source of financing. Copies of the CHFA financial statements may be obtained from CHFA, 1121 L Street, Sacramento, California 95814.

State legislation created various other **Non-Major Component Units** to provide certain services outside the State and to provide certain private and public entities with a low-cost source of financing for programs deemed to be in the public interest. Non-Major Component Units are legally separate from the State, provide services outside of the State, and meet the other criteria of discretely presented component units. Any debt of the Non-Major Component Units is collateralized solely by the credit of the private and public entities and is administered by trustees independent of the State or the State Treasurer's Office. At June 30, 1996, the Non-Major Component Units had $10.4 billion of debt outstanding, which is not debt of the State. Copies of the financial statements of these component units may be obtained from the Office of the State Controller, Division of Accounting and Reporting, P.O. Box 942850, Sacramento, California 94250-5876.

Tables 33 and 34 present summary financial statements for all major discretely presented component units and aggregate information for the Non-Major Component Units.

Table 33

Condensed Balance Sheet
Component Units – Special Purpose Authorities
June 30, 1996 (Amounts in thousands)

	State Compensation Insurance	California Housing Finance Agency	Non-Major Component Units	Total
Assets:				
Due from primary government	$ 9,965	$ —	$ 3,546	$ 13,511
Due from other funds	—	—	739	739
Other current assets	1,114,452	395,345	138,555	1,648,352
Investments	5,913,923	975,760	4,098	6,893,781
Advances and loans receivable	—	3,731,656	4,478	3,736,134
Fixed assets	219,548	—	311,908	531,456
Total Assets	**$ 7,257,888**	**$ 5,102,761**	**$ 463,324**	**$ 12,823,973**
Liabilities:				
Due to other funds	$ —	$ —	$ 743	$ 743
Other current liabilities	1,043,830	303,519	20,351	1,367,700
Benefits payable	4,619,802	—	—	4,619,802
Revenue bonds payable	—	4,337,755	—	4,337,755
Contracts and notes payable	—	—	48,853	48,853
Total Liabilities	**5,663,632**	**4,641,274**	**69,947**	**10,374,853**
Fund Equity:				
Retained earnings:				
Reserved for regulatory requirements	100,000	416,893	—	516,893
Unreserved	1,494,256	44,594	393,377	1,932,227
Total Fund Equity	**1,594,256**	**461,487**	**393,377**	**2,449,120**
Total Liabilities and Fund Equity	**$ 7,257,888**	**$ 5,102,761**	**$ 463,324**	**$ 12,823,973**

Table 34

Combined Statement of Revenues, Expenses, and Changes in Retained Earnings
Component Units - Special Purpose Authorities
Year Ended June 30, 1996 (Amounts in thousands)

	State Compensation Insurance	California Housing Finance Agency	Non-Major Component Units	Total
Operating Revenues:				
Earned premiums (net)	$ 1,077,384	$ —	$ —	$ 1,077,384
Other revenue	—	366,085	110,161	476,246
Total Operating Revenues	**1,077,384**	**366,085**	**110,161**	**1,553,630**
Operating Expenses:				
Depreciation	7,641	600	3,311	11,552
Benefit payments	953,491	—	—	953,491
Interest expense	—	274,501	—	274,501
Amortization of deferred charges	—	2,238	—	2,238
Other operating expenses	175,441	40,821	120,024	336,286
Total Operating Expenses	**1,136,573**	**318,160**	**123,335**	**1,578,068**
Operating Income (Loss)	**(59,189)**	**47,925**	**(13,174)**	**(24,438)**
Nonoperating Revenues (Expenses):				
Interest revenue	489,345	—	820	490,165
Dividends paid	(281,513)	—	—	(281,513)
Other nonoperating revenues (expenses)	—	—	(6,236)	(6,236)
Net Nonoperating Revenues (Expenses)	**207,832**	**—**	**(5,416)**	**202,416**
Net Income (Loss)	**148,643**	**47,925**	**(18,590)**	**177,978**
Retained Earnings, July 1, 1995	**1,445,613**	**413,562**	**411,967**	**2,271,142**
Retained Earnings, June 30, 1996	**$ 1,594,256**	**$ 461,487**	**$ 393,377**	**$ 2,449,120**

Significant Accounting Policies: The SCIF prepares its financial statements in conformity with practices prescribed by the State's Department of Insurance, which is primarily in accordance with generally accepted accounting principles. There are, however, a few principal exceptions; policy acquisition costs, late premiums, and office furniture and equipment are charged off currently; premium income is recognized over the policy periods; reinsured contract amounts are presented net of reinsurance; and the amount, that is due from the primary government for claims received, is not recorded. The Board of Directors of the SCIF declares dividends payable to policy holders who meet the premium volume and loss experience criteria established by the Board. The dividends paid shown on the Statement of Revenues, Expenses, and Changes in Retained Earnings for Special Purpose Authorities are for those dividends paid to policy holders. The financial statements of the

SCIF, which are included as a component unit, are as of and for the year ended December 31, 1995.

The accounts of the remaining special purpose authorities are reported using the accrual basis of accounting. Under the accrual basis, revenues are recognized when they are earned, and expenses are recognized when they are incurred.

Fixed Assets—Property and Depreciation: Depreciation on buildings for the SCIF is computed on a straight-line basis over the estimated useful lives of the buildings (40 to 50 years). Data processing equipment owned by the SCIF is carried at cost less accumulated depreciation computed on a straight-line basis over the estimated useful lives of the equipment (three to five years).

Cash and Pooled Investments and Investments: The cash and pooled investments of the special purpose authorities are primarily invested by the State Treasurer as part of the State's pooled investment program. At June 30, 1996, the special purpose authorities cash and pooled investments were approximately 3% of the State's pooled investment portfolio described in Note 3. Additionally, state law, bond resolutions, and investment policy resolutions allow the authorities to invest in United States government securities, Canadian government securities, state and municipal securities, commercial paper, corporate bonds, investment agreements, and other investments.

All investments reported as of June 30, 1996 are categorized in three categories of credit risk:

1. Insured or registered, or securities held by the authority or its agent in the authority's name.
2. Uninsured and unregistered, with securities held by the counterparty's trust department or by an agent in the authority's name.
3. Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the authority's name.

Table 35 presents the carrying value and market value of the investments of the special purpose authorities that were reported to the State on June 30, 1996.

Included in the investments of the special purpose authorities are the investments of the SCIF as of December 31, 1995. The SCIF represents 86% of the carrying value and 86% of the market value of the authorities' investments.

Table 35

Schedule of Investments - Special Purpose Authorities
June 30, 1996 (Amounts in thousands)

Invested Funds Subject to Categorization	Category 1	Category 2	Category 3	Carrying Value	Market Value
Government Securities:					
U.S. and U.S. agency	$ 3,677,075	$ —	$ —	$ 3,677,075	$ 4,043,186
Canadian government	39,642	—	—	39,642	43,987
State and municipal	25,067	—	—	25,067	25,262
Commercial paper	4,500	—	—	4,500	4,500
Corporate bonds	2,070,652	—	—	2,070,652	2,175,249
Investment agreements	—	308,262	—	308,262	308,262
Money market	187,745	—	4,098	191,843	191,843
Total Invested Funds Subject to Categorization	**$ 6,004,681**	**$ 308,262**	**$ 4,098**	**6,317,041**	**6,792,289**
Separately Invested Funds Not Subject to Categorization					
Investment agreements				576,740	576,740
Total Investments				**$ 6,893,781**	**$ 7,369,029**

Due from the Primary Government: The Due from the Primary Government account balance reflects $10 million that is due to the SCIF from the State's General Fund.

Restricted Assets: Cash and pooled investments of $373 million and investments of $963 million were restricted for debt service.

Fixed Assets: Table 36 presents property and data processing equipment for the authorities.

Table 36

Schedule of Fixed Assets - Special Purpose Authorities
June 30, 1996 (Amounts in thousands)

Real estate:	
Office building	$ 335,245
Land	37,119
Furniture and equipment	62,870
Construction in progress	1,133
Total Fixed Assets	**436,367**
Less: Accumulated depreciation	(98,858)
Net Fixed Assets	**$ 337,509**

The schedule of fixed assets does not include certain unaudited fixed assets of the Non-Major Component Units totaling approximately $194 million.

Revenue Bonds: Under state law, the CHFA may issue revenue bonds. The bonds issued by the CHFA allow the State to make loans to finance housing developments and to finance the acquisition of homes by low to moderate income families. When the housing development and home loans financed by the revenue bonds are

fully paid, the housing developments and homes become the property of private individuals or entities. Principal and interest on the revenue bonds issued by the CHFA are payable from its earnings.

Changes in Bond Indebtedness: Table 37 summarizes the changes in revenue bond debt of these authorities for the year ended June 30, 1996.

Table 37

Schedule of Changes in Revenue Bond Debt - CHFA
Year Ended June 30, 1996 (Amounts in thousands)

Balance, July 1, 1995	$ 3,750,981
Additions	1,002,452
Deduction	(415,678)
Balance, June 30, 1996	**$ 4,337,755**

Debt Service Requirements: Table 38 shows the debt service requirements for revenue bonds, excluding interest. Total interest payments for the year ended June 30, 1996, was $253 million.

Table 38

Schedule of Debt Service Requirements - CHFA
Year Ending June 30 (Amounts in thousands)

1997	$ 54,465
1998	67,645
1999	72,625
2000	78,106
2001	88,136
Thereafter	3,988,895
Total	**$ 4,349,872**

Extinguishment of Debt: On May 8, 1996, the CHFA issued Home Mortgage Revenue Bonds 1996 Series A, of which a portion of the proceeds were put into an escrow account to redeem Home Mortgage Revenue Bonds 1986 Series A. The CHFA considered this debt refunding to be an in-substance defeasance and accordingly removed from the combined balance sheet the bonds payable as well as the assets required to effect the redemption. In accordance with GASB No. 23, "Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities," the loss from the debt refunding was deferred and will be amortized over the remaining life of the prior bonds, which is shorter than the estimated life of the refunding bonds. At June 30, 1996, $92 million of bonds were considered defeased. The loss from extinguishment of debt was $3 million.

The refunding will decrease the debt service cash outflow for Single Family (Home Mortgage Revenue Bonds) by approximately $15 million. The refunding may also provide for an economic gain (present value of the difference between new and old debt service requirements) for Single Family, which is estimated to be approximately $1 million.

Commitments: As of June 30, 1996, the CHFA has outstanding commitments to provide $6 million for loans under the Multi-Unit Rental Housing Revenue Bonds I Program, $38 million for loans under the Multifamily Housing Revenue Bonds II Program, and $43 million for loans under the Home Mortgage Revenue Bonds Program.

At December 31, 1995, SCIF was committed under the terms of renewable leases for 18 offices. Table 39 summarizes the minimum annual rental commitments.

Table 39

Schedule of Lease Commitments - SCIF
Year Ending December 31 (Amounts in thousands)

1996	$ 16,632
1997	14,997
1998	9,713
1999	6,430
2000	4,454
Thereafter	4,716
Total	**$ 56,942**

Subsequent Events: From July 1, 1996, to November 27, 1996, the CHFA issued approximately $214 million in revenue bonds.

NOTE 27. JOINT VENTURE

A joint venture is an entity that results from a contractual arrangement and that is owned, operated, or governed by two or more participants as a separate and specific activity subject to joint control. In such an arrangement, the participants retain an ongoing financial interest or an ongoing financial responsibility in the entity.

The **Capitol Area Development Authority** (CADA) was created in 1978 by the Joint Exercise of Powers Agreement (JPA) between the State of California and the city of Sacramento for the location of state buildings and other improvements in the central city. The CADA is a public entity separate from the State and the city, and is administered by a board of five members: two appointed by the State, two appointed by the city, and one appointed by the affirmative vote of at least three of the other four members of the board. The State designates the chairperson of the board. Although

the State does not have an equity interest in the CADA, it has an ongoing financial interest in the CADA. Based upon the appointment authority, the State has the ability to indirectly influence the CADA to undertake special projects for the citizenry of the State. The State subsidizes the CADA's operations by leasing the lands to the CADA without consideration; however, the State is not obligated to do so. Separately issued financial statements of the CADA can be obtained from its administrative office at 1530 Capitol Avenue, Sacramento, California 95814.

cc: Members of the Legislature
Office of the Lieutenant Governor
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